CONSTRUCTIVE ACCOUNTING

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CONSTRUCTIVE ACCOUNTING

Constructive Accounting

BY

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ACCOUNTANCY

Unit I — Fundamentals of Accounting
Unit II — Constructive Accounting
Unit III — Applied Accounting
Unit IV — C. P. A. Problems
Unit V — Income Tax Accounting
Unit VI — Fundamentals of Auditing

PREFACE

This is a treatise on Constructive Accounting. It deals with one of the fundamental branches of accounting which involves the planning of the accounting system and the designing of the records and business forms which comprise the system. There are certain definite principles involved in the planning and designing of an accounting system. These principles are developed in logical order after which they are applied in the construction of different accounting records and forms.

Constructive accounting, or system building, is a branch of accountancy which involves an application of the general principles of accounting, as well as certain principles of system construction. The same records cannot be used in every business. Therefore, standardization of accounting systems has not proven practical except in so far as they may be used by firms engaged in the same line of business. Considerable progress has been made toward the development of standard accounting systems in certain lines of industry, but even here the systems need to be varied to fit the needs of a particular business. The type of organization, the nature of the business in which engaged, the location, volume, method of managerial control and personnel, all affect the details of the system. Each of these factors need to be given consideration in planning and designing a system for a particular firm.

Certain operations are fundamental to most businesses, such as buying and selling. In view of this there is some uniformity in the purchases and sales records used by different business firms. However, even these records must be designed to provide for a distribution of purchases and sales which will give the analytical information needed by the management. There will be even greater variation in the other records constituting an accounting system owing to the variation in the nature of the operations performed by each firm.

The student who undertakes the study of constructive accounting should have a thorough knowledge of the general

principles of accounting applicable to the recording of transactions and the preparation of reports. With this knowledge he will appreciate the need for properly designed records to be used in recording the business operations. In other words, the study of constructive accounting should follow the study of the fundamental principles of accounting.

Each chapter is devoted to a specific phase of the subject. The discussion is organized so as to provide: first, a preview of the subject through the medium of an outline at the beginning of the chapter; second, a discussion of the theory involved in the presentation of the subject; third, a review of the subject through a summary which concludes the chapter; fourth, questions which develop the theory, and fifth, problems requiring an application of the theory to practical work.

The project given at the end of Chapter Ten requires an application of the principles developed throughout the text. It provides an excellent means of testing the ability of the pupil to apply his knowledge of the principles of constructive accounting.

Assistance in the preparation of this treatise has come from many sources including both those engaged in teaching, and those engaged in public accounting practice. The author especially wishes to acknowledge the material assistance of those who aided in the preparation and editing of the manuscript and in reading the proof.

J. F. SHERWOOD

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Title	Author	Publisher
Basic Accounting	Bennett	Gregg Publishing Co.
Accounting Systems	Bennett	A. W. Shaw Co.
Modern Accounting Systems	Gordon and Lockwood	John Wiley & Son
Business Accounting (5 volumes)	Greeley, Editor	Ronald Press Co.
Managerial Accounting	McKinsey	The University of Chicago Press
Accountants' Handbook	Saliers, Editor	Ronald Press Co.
Accounting Systems	Thompson	LaSalle Extension University
System Building and Constructive Accounting	Willard	McGraw-Hill Book Co

Constructive Accounting

I. Principles of System Building
II. Designing an Accounting System
III. Purchases Records and Forms
IV. Sales Records and Forms
V. Cash Records and Forms
VI. Miscellaneous Records and Forms
VII. General and Subsidiary Ledgers
VIII. Installation of Systems
IX. A System for a Wholesale Grocery
X. A System for a Realty Company

CHAPTER ONE

PRINCIPLES OF SYSTEM BUILDING

1. **Scope of System Building**
2. **The Preliminary Survey**
   - (a) **Legal organization**
   - (b) **Personnel of organization**
   - (c) **Nature of business**
   - (d) **Volume of business**
   - (e) **Reports desired by management**
   - (f) **Inadequacy of system**
   - (g) **Mechanical appliances and equipment**
3. **Accounting Organization**
4. **Uniform Classifications**
5. **Coding Accounts**
   - (a) **The Universal System**
   - (b) **The Dewey System**
   - (c) **The Mnemonic System**

SCOPE OF SYSTEM BUILDING

Constructive accounting is that branch of accounting which deals with the designing and the installation of systems. This branch of accounting is often referred to as System Building. While the fundamental principles of accounting are quite well established and accounting procedures are fairly well standardized, the conditions under which business itself is conducted are so varying that the application of accounting principles to the recording of operations of different businesses is a challenge to the most skillful accountants.

The field of constructive accounting offers excellent opportunities to the accountant who qualifies himself to assist in the solution of the problems confronting those who are concerned with the management of large business units. This is an age of rapid expansion in business. The trend is toward the forming of larger units in all branches of industry. In every industry

there is a tendency to consolidate and merge the smaller units into a greater organization with ample capital to facilitate efficiency in operation and economy in production and distribution. The rapidly changing status of business units has created a need for accounting information which will serve as a guide in formulating and executing new policies.

The executives who are responsible for the operations of large business units cannot be well informed regarding the detailed activities of each department without the aid of skillful accountants whose duty it is to provide full information regarding the detailed operations through the medium of reports which can be readily interpreted. Such reports must provide information which will be a reliable guide in planning and controlling future activities of the business. The successful executive is more concerned over his plans for the future than he is over what has happened in the past. He is interested in the reports of past operations only to the extent that they may be a reliable guide in planning the future operations.

The accounting elements are the same in every business. In every business enterprise goods or services are sold; the goods which are sold are either purchased or produced; cash is received and disbursed; income is earned and expenses are incurred; assets are created and liabilities incurred; property is owned or the right to its use is obtained, and finally, a net profit is earned or a net loss is sustained. These elements are similar in every business, hence the accounting principles may be uniformly applied, but in their application to a particular business there are many details which are peculiar to the business itself which must be thoroughly analyzed in order that there may be a practical application of the principles of accounting to the nature of the business and the needs of the management.

Before the operations of a business may be recorded, it is necessary to devise and install an accounting system. The installation of an accounting system which will be adapted to the needs of a business, involves the gathering of sufficient information to permit of an intelligent application of accounting principles to, (a) the charting of accounts, (b) the designing of the books of account and the business forms, and (c) the construction of the records and forms.

PRELIMINARY SURVEY

The accountant engaged in devising an accounting system first prepares a schedule or chart of accounts which will serve as a guide in designing the records. A chart of accounts is merely a list of accounts properly classified. In order to intelligently classify the accounts, the accountant needs certain information which should be obtained in a preliminary survey. The particular accounts to be kept must be determined from a study of conditions and the requirements of the management and others concerned in the operations of the business. It is hardly possible to outline all the information which will be needed in every case of system building, but the following will suggest what information usually will be helpful:

(a) Legal organization
(b) Personnel of organization
(c) Nature of business
(d) Volume of business
(e) Reports desired by management
(f) Inadequacy of present system
(g) Mechanical appliances and equipment.

Legal Organization. Most businesses are organized and conducted by either a single proprietor, a partnership, or a corporation. If a business is operated by a single proprietor, it will be of interest to know whether or not he is engaged in any other business as a sole proprietor or partner. If the business is operated by a partnership, it will be necessary to know the number of partners and to become familiar with the partnership agreement. The agreement between the partners should reveal such information as the following:

(a) Name of the firm and name of each partner
(b) Date of organization and time the partnership is to continue
(c) Amount of each partner's investment
(d) Nature of the business
(e) Duties of each partner
(f) Compensation of partners
(g) Basis of distribution of profits and losses
(h) Basis of distribution of assets upon dissolution.

Other information may be provided in the partnership agreement. The accountant should make note of all this information, for it will be found useful in devising the system of accounts.

If the business is operated by a corporation, it will be necessary to become familiar with the charter and by-laws which govern the management and operation of the business. The accountant should know when the corporation was organized, kind and amount of capital stock authorized, and the amount of each kind of capital stock outstanding. He should also ascertain whether or not the corporation is affiliated with any other corporations through ownership of stock.

Personnel of Organization. The personnel of the organization will depend largely upon the type of organization. If the business is owned by a single proprietor he will usually be the directing head or manager of the business. If the business is owned by a partnership, any one of the partners may be the manager. In either case, an outside party may be employed to manage the business. If the business is owned by a corporation, the officers will usually consist of a president, one or more vice-presidents, a secretary and a treasurer. The manager may or may not be an officer of the company. The manager and the officers of a company are, of course, not the only ones concerned with the results to be obtained from an accounting system. Department heads will need much information in the conduct of their respective departments which the accounting department will be expected to provide. Other employees will also be concerned. The usual plan is to devise a system of accounts which will fit the business, but it will be helpful if the accountant is acquainted with the personnel of the organization. Many elaborate accounting systems have failed to provide the desired information and have been unsatisfactory because the personnel of the accounting department and the personnel of the organization were not considered when the system was designed.

Nature of Business. It will be essential to know the nature of the business and whether the income is derived from sales of commodities or services rendered. If the income is derived from sales, the business will usually be either a mercantile or manufacturing business. Since the nature of the

operations will vary in each different kind of business, it will readily be seen that it is essential to know what commodities are dealt in and whether they are purchased or manufactured.

Volume of Business. The volume of business and frequency of transactions will be the controlling factors in determining a proper subdivision of the records. It is obvious that a system of accounts devised to meet the requirements of a small steel plant would not be adapted to the needs of the United States Steel Corporation. Neither would a system devised to meet the requirements of a small department store be adapted to the needs of Marshall Field and Company. The volume of business will determine largely the number of employees in the accounting department and the accountant will need to plan his system with a view to making it possible for the necessary number of employees to have access to the books, in the recording of the transactions.

Reports Desired by Management. While the Balance Sheet and Profit and Loss Statement are reports which will always be expected, there are many other reports which it will be necessary for the accountant to prepare in order to provide the management with the desired information. Daily, weekly, and monthly reports may be required to provide information regarding inventories, purchases, production, sales, cash receipts and expenditures, etc. Much of the desired information may be of a statistical nature, but, nevertheless, the system of accounts should be designed to provide the facts needed in preparing the reports.

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Inadequacy of System. In a majority of cases the accountant engaged to do system work will be asked to improve or revise the existing system rather than to devise an entirely new system of accounts. There may be many reasons why a revision of the accounting system may be desired. Familiarity with these reasons will be a guide to the accountant in making the revision and in improving the system with a view to providing the additional information desired. When engaged to revise a system of accounts for a business that has been in operation, it will not only be advisable to ascertain wherein the present system of accounts is faulty or inadequate, but it will also be a good plan to obtain the following:

(a) List of books used and information concerning the purpose of each book

(b) List of accounts and information concerning the nature of each account

(c) List of forms and information concerning the purpose of each form

(d) Copies of most recent financial statements and any other available accounting or statistical reports.

Mechanical Appliances and Equipment. A considerable part of the detailed work of accounting may be done on machines. Adding, billing, posting, calculating and statistical machines are an aid to accounting. The use of these machines increases accuracy, provides for a larger output of work and insures a uniform legibility of the records.

Following is a list of mechanical appliances which are widely used:

Adding Machines
Addressing Machines
Auditing Machines
Autographic Registers
Billing Machines
Bookkeeping Machines
Calculating Machines
Cash Registers
Change Making Machines
Check-Writing Machines
Dictating Machines
Duplicating Machines
Measuring Machines
Numbering Machines
Posting Machines
Punching Machines
Registering Machines
Sorting Machines
Tabulating Machines
Time Recording Machines
Typewriters
Weighing Machines

These machines may be classified as follows:

1. Adding machines (listing)
   (a) Full-keyboard type
   (b) Ten-keyboard type
2. Calculating machines (nonlisting)
   (a) Key-driven type
   (b) Rotary type
3. Billing machines
   (a) Adding-typewriter type
   (b) Adding-machine type
   (c) Multiplying-machine type
4. Bookkeeping machines
   (a) Adding-machine type
   (b) Billing-machine type
   (c) Cash-register type
5. Registering machines
6. Time-keeping machines
7. Tabulating machines
8. Auditing machines

Where a duplication of operations or processes exists in any undertaking, the routine work can be standardized and a machine employed to advantage. The need for the application of mechanical methods to the recording process may be summarized as follows:

1. The necessity of acquiring speed in accounting work to keep up with the modern methods of mass production and mass marketing.

2. The necessity of detailed information required for management today, such as sales statistics, departmental and process costs, classified expenses, daily and monthly reports, etc.

3. The necessity of complete internal check in the division of clerical work into which the machine methods especially fit, through daily automatic balances and proof figures.

4. The necessity of accuracy where a large volume of detail calculations must be handled by clerical help. This is assured by removing the human-error factor through mechanical calculating devices.

It is important that the accountant prepare a list of the machines and equipment available for use in the accounting department in order that he may provide for the use of these

machines in improving the existing system of accounts or in devising a new system.

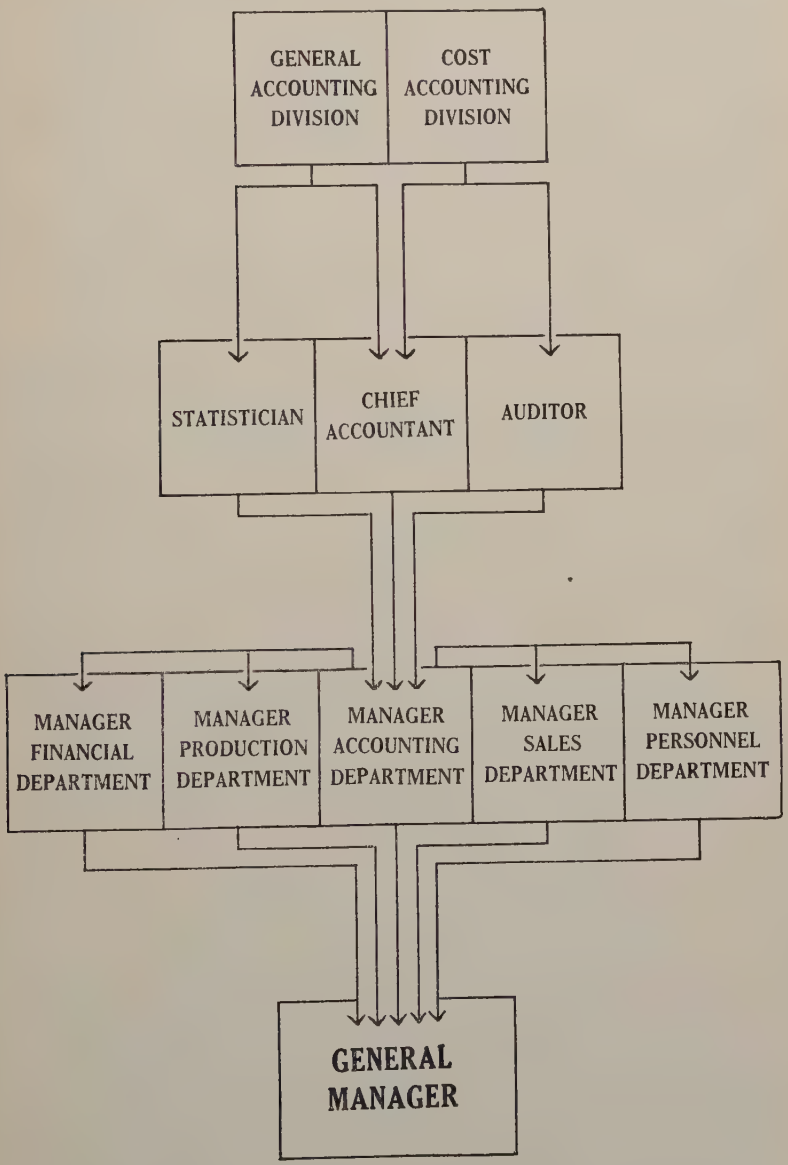
ACCOUNTING ORGANIZATION

After completing the preliminary survey, it may be well to set up an organization chart which will show the relation of the accounting department to the other departments of the business. This will reveal the place of accounting in the business organization and it should be an aid in planning and designing a system to fit the conditions under which the business is being operated and under which the system must function. Obviously, the internal organization of a business is dependent upon the type of enterprise and the nature and volume of the business. In a small business, the owner may take full charge of the management and supervise all the activities. In a large business, authority must be delegated. The work may be departmentalized with a manager in charge of each department. Thus, the financial activities may be placed in charge of a financial manager; the production activities in charge of a production manager; the sales or marketing activities in charge of a sales manager, and the personnel activites in charge of a personnel manager. The manager of each of these departments is responsible to and reports to the general manager or the president of the company.

The establishment of an accounting department is made necessary by the constant need for accounting and statistical information by the heads of the various other departments. The accounting department may be subsidiary to the financial department, or it may be an independent department, in charge of a manager who reports directly to the general manager. The manager of the accounting department is sometimes an officer of the company and is given a title such as treasurer, comptroller or auditor. He is charged with the responsibility of supervising the accounting and providing the information desired by the managers of the other departments and by the general manager.

If the accounting and statistical records are placed in charge of one manager, he may have employed under him a chief accountant, a statistician, and an auditor, each of whom is a specialist in his line of work. Regardless of whether or not accounting and statistics are placed under the control of one executive, both serve the same purpose—that is, they are devices by means of which administrative data are procured.

ACCOUNTING ORGANIZATION



(Illustration No. 1)

The chief accountant is responsible for providing and maintaining such records as are necessary to record the operations of the business and to provide the required accounting and statistical information. The work in his department is frequently subdivided into two divisions—general accounting and cost accounting. At the head of each division is an accountant who has under his supervision a sufficient number of bookkeepers and clerks to do the actual recording of the operations.

The statistician interprets accounting data by means of statistical processes. The accounting records are the source of valuable statistical data and it is the duty of the statistician to classify properly and tabulate such data as may be useful to the management. The average business man has not become as familiar with statistics as accounting, hence statistics do not as yet occupy so prominent a place as accounting in the field of business control. However, most large business concerns have established statistical departments. Perhaps many accountants do not as yet realize the importance of applying statistics as a means of interpreting accounting data, and do not realize to what degree the information made available by the accounting records is subject to statistical interpretation.

The auditor maintains an internal check on the operations of the accounting department. He may report either to the manager of the accounting department or to the general manager. Practice varies in this matter, but in either case, it is his business to audit and maintain a constant check upon the work performed in the accounting department.

The general accountant and cost accountant will provide the chief accountant with reports from the records kept in their respective divisions. The auditor and the statistician must have access to the accounting records so that they may compile the data and prepare the reports called for by the manager in charge of the accounting department. The manager of the accounting department will, in turn, furnish the managers of all the other departments with information they need in the conduct of their departments and in the preparation of such reports as each will be expected to furnish the general manager. Finally, the general manager will coordinate the activities of all the departments and plan the future operations of the business.

UNIFORM CLASSIFICATION OF ACCOUNTS

In many industries an effort has been made to obtain a uniform classification of accounts by the different firms engaged in businesses of like kind. The prescribing of uniform classifications of accounts by the Interstate Commerce Commission* for companies engaged in interstate commerce has had a marked influence upon account classification in other industries. Uniform classifications of accounts have been prescribed for the following companies:

Steam Railways
Electric Railways
Sleeping Car Companies
Express Companies
Pipe Line Companies
Telephone Companies
Telegraph and Cable Companies
Carriers by Water

Illustration No. 2 shows a uniform classification of accounts prescribed for telephone companies.

In preparing the classification of accounts, the Interstate Commerce Commission has divided the telephone companies into four classes as follows:

Class A—Companies having an average annual operating revenue in excess of $250,000.00

Class B—Companies having an average annual operating revenue in excess of $50,000.00 but not in excess of $250,000.00

Class C—Companies having an average annual operating revenue in excess of $10,000.00 but not in excess of $50,000.00

Class D—Companies having an average annual operating revenue of $10,000.00 or less.

The classification of the accounts shown in the illustration applies to Class C companies.

This classification of accounts was devised with a view to

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*Bulletins containing the prescribed classification of accounts for companies engaged in interstate commerce may be obtained from the Superintendent of Documents, Government Printing Office, Washington, D. C.

Assets

100. Plant and Equipment
  200. Intangibles
  210. Land and Buildings
  220. Central Office Equipment
  230. Station Equipment
  240. Exchange Lines
  250. Toll Lines
  260. General Equipment
  270. Undistributed Construction Expenditures
  280. Plant and Equipment Purchased
  290. Plant and Equipment in Service January 1, 19..
105. Other Property
110. Securities
115. Cash
120. Notes Receivable
125. Due from Subscribers and Agents
130. Accounts Receivable
135. Materials and Supplies
140. Special Funds
145. Prepayments
150. Other Debit Accounts

Liabilities

160. Capital Stock
165. Funded Debt
170. Notes Payable
175. Accounts Payable
180. Accrued Liabilities Not Due
185. Depreciation Reserve
190. Other Credit Accounts
195. Surplus

Income

300. Telephone Operating Revenues
  500. Exchange Revenues
  510. Toll Revenues
  520. Miscellaneous Revenues
  530. Licensee Revenues—Credit
  540. Licensee Revenues—Debit
310. Other Operating Revenues
320. Miscellaneous Income

Expenses

330. Telephone Operating Expenses
  600. Repairs of Wire Plant
  610. Repairs of Equipment
  620. Station Removals and Changes
  630. Depreciation of Plant and Equipment
  640. Other Maintenance Expenses
  650. Operators' Wages
  660. Other Traffic Expenses
  670. General Office Salaries
  680. Other General Expenses
340. Other Operating Expenses
350. Taxes
360. Interest Accrued
370. Miscellaneous Charges to Income
380. Dividends Declared

Classification of Accounts for Telephone Companies (Illustration No. 2)

furnishing such information as was needed by the Commission and which would be useful to the companies. While it is obligatory for telephone companies of Class C doing an interstate business or handling interstate messages for long distance companies to observe this classification of accounts, the Commission will permit the companies to keep their accounts in greater detail by subdividing many of the accounts prescribed, or if desired they may adopt the system of accounts prescribed for Class A or B companies. It will be observed that this classification of accounts does not conform to the usual classification in accounting reports. The fact must be kept in mind that this classification was prescribed with a view to providing specific information desired by the Interstate Commerce Commission. One of the principal uses of this information is for rate-making purposes.

Trade associations have also taken an active part in devising uniform classifications of accounts for the benefit of members of the associations. The principal reason for the activities of the trade associations in prescribing uniform systems of accounts is the desire to aid members in pricing their products intelligently. There is no doubt but that much undesirable competition has resulted from ignorance of cost and inadequate systems of accounts. Through a proper system of accounts, the proprietor of a business may determine the true cost of doing business and should be able to determine the profitable lines of his business and whether or not he is operating his business, as a whole, at a profit. The trade associations have rendered a valuable service to their members in getting them to understand the importance and value of accounting.

The Federal Trade Commission has made an effort to aid retail merchants to improve their accounting methods by outlining a simple system of accounts which is intended to supply the information necessary to properly direct a retail business. In 1916 the Commission prepared and published a bulletin entitled "A System of Accounts for Retail Merchants." During the same year, the Commission published another bulletin entitled "Fundamentals of a Cost System for Manufacturers." These bulletins resulted from the fact that the Federal Trade Commission had found that a majority of retail merchants did not know accurately what it was costing them to do business and for that reason were unable to price their goods intelligently.

The Commission had also found that an amazing number of manufacturers had no adequate system for determining their costs and, therefore, priced their products arbitrarily.

Other organizations have taken an interest in accounting and have made some effort to promote uniformity in accounting systems and reports. The Committee on Industrial Accounting and Executive Reports of the Boston Chamber of Commerce has prepared and adpoted a classification of accounts which is not intended to fit the requirements of any particular concern or industry but which is intended to illustrate broadly the representative accounts used in manufacturing industries. This classification of accounts is supplementary to a report on Balance Sheets and Profit and Loss Statements which was prepared by the same Committee.*

CODING ACCOUNTS

It is sometimes deemed advisable to code the accounts. This is done to promote efficiency or to eliminate the possibility of an employee in the accounting department obtaining information concerning the accounts which might be used in a manner detrimental to the company. For instance, the bookkeeper who does the posting to the customers' accounts might prepare a list of the customers and furnish such list to a competing company. If the accounts are coded in some manner, the bookkeeper in charge of the customers' accounts will not have access to the names of the customers, hence there will be no danger of him giving out information that might be detrimental to the company. The coding of accounts will often increase the efficiency of the accounting department for it will save time in preparing debit and credit vouchers or in indicating the entries to be made on the books, the numbers of the accounts being used instead of the names of the accounts. This also facilitates the location of the accounts in the ledgers for posting purposes.

In coding accounts there are three systems in general use as follows:

(a) Universal System
(b) Dewey System
(c) Mnemonic System

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*Copies of these reports may be obtained from the Bureau of Commercial Industrial Affairs, Boston Chamber of Commerce, Boston, Massachusetts, for 50¢ each.

Universal System. The Universal System is perhaps the most simple plan which may be used in coding accounts. The usual plan is to determine the maximum number of accounts in each group or class and assign a series of numbers to each group or class. This plan was followed in Illustration No. 2. If a classification of accounts is to be of the greatest service, the account numbers should be so arranged as to permit the addition of new accounts at any desired point without disturbing the general scheme or order. In Illustration No. 2 it will be observed that an arbitrary series of numbers is assigned to each group of accounts. Expansion is provided for by allowing a considerable range of account numbers for each group. The Universal System of coding accounts is used by the Interstate Commerce Commission in all of its uniform classifications of accounts for public utilities.

Dewey System. Several years ago a man named Dewey designed a plan for the classification of books in libraries. This plan was based upon the ten units of the decimal system. A similar plan is used in coding accounts and it is known as the Dewey Decimal System. Under this plan numbers from 1 to 9 usually are assigned to the major groups in the account classification, while accounts in the subdivisions are represented by the addition of a digit at the right of the digit which is assigned to the major group. Thus, if the digit "1" is assigned to a major group of accounts known as Assets, a second digit "1" may be stated at the right of the first digit to indicate Current Assets, and the next digit "2" may be stated at the right to indicate Fixed Assets as follows:

1 Assets
  11 Current Assets
  12 Fixed Assets

A further subdivision of Current and Fixed Assets may be provided by merely continuing this plan as in the following manner:

1 Assets
  11 Current Assets
    111 Cash
  12 Fixed Assets
    121 Buildings

REAL ACCOUNTS

1. Assets

11 Current assets

111 Cash
112 Notes receivable
113 Accounts receivable
1103 Reserve for bad and doubtful accounts
114 Inventories
1141 Flour
1142 Offal
1143 Other products
1144 Wheat
1145 Flour packages
1146 Offal packages
1147 Mill supplies
115 Temporary investments
116 Options

12 Fixed assets

121 Land
122 Mill
1221 Mill buildings
12201 Reserve for depreciation
1222 Mill equipment
12202 Reserve for depreciation
123 Office
1231 Building and Equipment
12301 Reserve for depreciation
124 Storage and delivery
1241 Building and equipment
12401 Reserve for depreciation
125 Permanent investments
1251 Bonds

13 Special assets

131 Contracts for future delivery—flour
132 Contracts for future delivery—offal

14 Contingent assets

141 Claims

15 Deferred assets

151 Insurance prepaid
152 Expenses prepaid
155 Milling-in-transit

2. Liabilities

21 Current liabilities

211 Accounts payable
212 Notes payable
213 Accrued liabilities
2131 Taxes
2132 Interest
2133 Wages

(Continued on next page)

22 Fixed liabilities
- 221 Mortgage payable
- 222 Bonds

23 Contingent liabilities
- 231 Notes receivable discounted
- 232 Claims

24 Special liabilities
- 241 Contracts for future delivery

3. Proprietorship

31 Capital stock
32 Unappropriated surplus
33 Appropriated surplus
- 331 Reserve for contingencies
- 332 Reserve for sinking funds

34 Profit and loss—current year
- 341 Dividends
- 342 Income and excess profits taxes
- 343 Appropriations of net profits

NOMINAL ACCOUNTS

4. Revenue

41 Sales
- 411 Flour
- 4101 Returns and allowances on flour sales
- 412 Offal
- 4102 Returns and allowances on offal sales
- 413 Freight outward

42 Gains on options
43 Other income
- 431 Interest

5. Expenses

51 Cost of sales
- 511 Milling
- 512 Packages
  - 5121 Flour
  - 5122 Offal

52 Selling
- 521 Salesmen's salaries
- 522 Traveling expenses
- 523 Commissions
- 524 Advertising
- 525 Bad debts

53 Warehouse and delivery
- 531 Salaries
- 532 Other expenses
- 533 Depreciation

54 Administration
- 541 Office salaries
- 542 Office expenses
- 543 Depreciation

55 Interest and exchange
56 Loss on options

Chart of Accounts for Milling Companies
(Illustration No. 3)

Sometimes the decimal point is used to indicate general ledger accounts or when the account numbers exceed three digits. The Dewey Decimal System of numbering accounts is illustrated in the chart of accounts for a milling company, Illustration No. 3.

The classification of each account is indicated by the number assigned to it. Accounts represented by numbers beginning with the figure "1" are assets. Accounts represented by numbers beginning with the figure "2" are liabilities. Accounts represented by numbers beginning with the figure "3" are proprietorship accounts. Accounts represented by numbers beginning with the figure "4" are revenue accounts. Accounts represented by numbers beginning with the figure "5" are expense accounts. This plan of indicating the exact classification of the accounts has been carried out throughout the entire schedule. For instance, the account with Flour is indicated by number 1141. The first figure indicates that it is an asset; the second figure indicates that it is a current asset; the third figure indicates that it is an inventory, and the fourth figure represents the particular account. Accounts assigned numbers in which the last figure is preceded by a cipher are deductions from the accounts bearing the same numbers with the cipher omitted.

Mnemonic System. Letters instead of numbers are sometimes used to represent accounts. Capital letters may represent groups of accounts, while small letters may represent individual accounts within the group. For instance, the letter "A" may represent assets, the letter "B", liabilities, and the letter "C", proprietorship accounts. The small letters would then be used to indicate particular accounts as shown in Illustration No. 4.

Sometimes both figures and letters are used in coding accounts. The figures may be used to represent major groups or classes of accounts while letters may be used to represent specific accounts within the group, or this plan may be reversed, letters being used to represent the major groups of accounts while the figures may be used to represent the specific accounts within each group as shown in Illustration No. 5.

The Universal System is more commonly used in practice. It probably serves to meet the requirements of uniform account

A Assets
- AA Current Assets
  - AAa Cash
  - AAb Accounts Receivable
  - AAc Notes Receivable
- AB Fixed Assets
  - ABa Land
  - ABb Buildings

B Liabilities
- BB Current Liabilities
  - BBa Notes Payable
  - BBb Accounts Payable

C Proprietorship
- Ca Proprietor's Capital
- Cb Net Profit

Mnemonic System of Coding Accounts

(Illustration No. 4)

A Assets
- Aa Current Assets
  - Aa1 Cash
  - Aa2 Accounts Receivable
  - Aa3 Notes Receivable
- Ab Fixed Assets
  - Ab1 Buildings
  - Ab2 Land

B Liabilities
- Ba Current Liabilities
  - Ba1 Notes Payable
  - Ba2 Accounts Payable

C Proprietorship
- Ca Capital
- Cb Personal

Combination of Mnemonic and Universal Systems

(Illustration No. 5)

classifications as well as any other system, although the Dewey System is preferred by many accountants. The Dewey System is, of course, an adaptation of the Universal System which has the advantage of unlimited expansion.

SUMMARY

Before the operations of a business can be recorded, it is necessary to determine what information shall be recorded and what records shall be used in recording the information. Standard records may be purchased or special records may be designed and made up to fit the needs of the particular business. Many factors are to be considered in selecting or designing the records to be kept.

A study must be made of the business to ascertain information regarding its organization, nature and volume. Charting of the legal and accounting organizations will be an aid to system building. The most important phase is to ascertain what accounting information is desired by the management or what accounting information can be used advantageously. Too often, those concerned with business management are unfamiliar with the uses of accounting information as an aid to effective control of the business operations. The accountant who undertakes to do system work, frequently finds it necessary to devote some time to educating the executives to a full realization of the function of accounting and its administrative uses. It is not sufficient to design and install a sound accounting system. It must be actually used as an aid to management to produce maximum results.

After the desired information has been obtained through a preliminary survey, the accountant should prepare a chart of accounts to fit the needs of the business. This will serve as a guide in planning the entire system. If desired, the accounts may be coded. Frequently the uniform classifications of accounts prescribed by the Trade Associations or Governmental Departments may be used advantageously. Of course, the use of the classifications prescribed by the Trade Associations is optional with the members. The classifications prescribed by the Interstate Commerce Commission must be used by firms engaged in interstate commerce which are subject to the regulations prescribed by the Commission.

QUESTIONS

1—1. What is constructive accounting?

1—2. Some accountants develop a so-called standard accounting system and then install it in a number of different businesses. Explain why it would be better to design a system to conform to the needs of each particular business.

1—3. What specific information does the accountant need before he can proceed intelligently in designing an accounting system to fit the needs of a particular business?

1—4. The general manager of The Central Supply Co. is furnished with the following reports as of December 31 of the current year:

(a) A Balance Sheet showing the financial status of the business.

(b) An Operating Statement showing the results of the year's operations.

(c) An analytical report showing the average amount of sales to each customer during the year.

(d) A comparative statement of the traveling expenses of the salesmen over a period of five years.

(e) A report showing the average length of time employees remain with the company.

Distinguish between accounting and statistical information and explain which type of information is provided by each of the above reports.

1—5. What are some advantages to be derived from a uniform classification of accounts for firms engaged in the same line of business?

1—6. Explain why most of the larger trade associations have made an effort to promote the use of uniform classifications of accounts and accounting systems designed especially for the particular business in which their members are engaged.

1—7. Why has the Interstate Commerce Commission prescribed uniform classifications of accounts to be used by companies engaged in interstate commerce which, under the law, are subject to the regulations prescribed by the Commission?

1—8. What is meant by "coding" accounts? Give two reasons why it might be a good plan for a firm to code its accounts.

1—9. In coding accounts, what different systems may be used? Explain the advantages claimed for each of the most commonly used systems.

1—10. (a) How is provision made for expansion in the accounts of a business when the Universal System of coding the accounts is used? (b) When the Dewey System is used?

PROBLEMS

1—1. The following list of accounts is taken from the books of The Humphrey Elevator Co., after closing, on December 31 of the current year.

Cash	$ 575.00
Notes Receivable	650.00
Accounts Receivable	6,416.00
Plant	8,000.00
Land	11,000.00
Inventories:	
Wheat	2,916.00
Corn	790.00
Oats	1,072.00
Rye	56.00
Barley	213.00
Hard Coal	562.00
Soft Coal	708.00
Other Merchandise (Supplies)	5,953.40
Notes Payable	8,400.00
Accounts Payable	1,753.10
Reserve for Bad Debts	800.00
Reserve for Depreciation of Plant	2,600.00
John R. Humphrey, Capital	16,180.00
Profit and Loss	9,178.30

Prepare a chart of the above accounts coding the accounts on a basis of the Universal System, which will allow for expansion as the business grows without need for changing the numbering plan. (The company uses the system of accounts recommended by the United States Department of Agriculture in Bulletin No. 362.)

1—2. From the information provided in the preceding problem, prepare a Balance Sheet in report form to be submitted to the proprietor. (It is customary to omit code numbers and use only the account titles in reports.)

1—3. The Lincoln Warehouse Company uses the system of standard accounting methods recommended by the National Furniture Warehousemen's Association. The following account titles were taken from the general ledger:

A—Assets

Cash
Notes Receivable
Accounts Receivable
Inventory (Material and Supplies)
Prepaid Insurance
Prepaid Interest
Investments (Stocks and Bonds)
Real Estate or Leasehold Investment
Cartage Equipment
Warehouse Equipment
Office Equipment
Good Will
Copyrights

B—Liabilities

Notes Payable
Accounts Payable
Mortgage
Reserve for Depreciation of Cartage Equipment
Reserve for Depreciation of Warehouse Equipment
Reserve for Depreciation of Office Equipment
Reserve for Loss on Bad Debts
Capital Stock
Surplus

C—Income

Real Estate (if property owned)
or
Leasehold (if property leased)
Storage
Storage Handling
Cartage
Packing Material
Packing Labor
Carpet Cleaning
Safe Deposit
Cold Storage

D—Expenses

Real Estate (if property owned)
or
Leasehold (if property leased)
Storage
Storage Handling
Cartage
Packing Material
Packing Labor
Carpet Cleaning
Safe Deposit
Cold Storage

E—Clearing or Summary Accounts

Real Estate or Leasehold } Expense Clearing Account

Overhead Clearing Account
Prepaid Clearing Account
Profit and Loss Clearing Account

It will be noted that the same titles are given the income and expense accounts. The Real Estate or Leasehold income accounts are credited with 7% of the present value of the land and the appraised sound value of the buildings thereon. The offsetting debit is to Real Estate or Leasehold Expense Clearing (Summary) account. The other income accounts are credited with departmental earnings. Where operations require the services of several departments, the earnings are distributed so that each department is credited for its proportionate share.

The Real Estate or Leasehold Expense accounts are charged with the interest paid on real estate mortgages or with the rental on the leasehold depending upon whether the real estate is owned or leased.

The departmental expense accounts are charged with the following:

(a) Department rental or space charge.
(b) All direct charges.
(c) Overhead.

An Overhead Clearing (Summary) account is debited at the end of the fiscal period for those expenses which it has been possible to charge directly to any single department. This includes executives' salaries, office salaries, office supplies, postage, telephone, telegraph, advertising, association dues, insurance, estimating expense, taxes, and interest. The total amount of the overhead expense is then distributed to the departments on a basis of the percentage of gross business done in each department.

From the above list of accounts prepare a chart showing a proper classification of the accounts and code the accounts on a basis of the Dewey System.

1—4. The Noble Manufacturing Company classifies all expense accounts under the following principal divisions:

(a) Manufacturing Expenses
(b) Selling Expenses
(c) Financial Expenses
(d) Administrative Expenses
(e) General Expenses

Analyze the following accounts and designate in which division you would classify each expense:

1. Materials and Supplies Consumed.
2. Interest on Loans Paid.
3. Interest on Bonds Paid.
4. Postage for General Correspondence.
5. Postage for Parcel Post.
6. Domestic Property Taxes.
7. Street Assessments for Street Improvements.
8. Federal Income Taxes.
9. Discounts Received on Purchases.
10. Discounts Given on Sales.
11. Depreciation on Machinery.
12. Collection Charges on Checks.
13. Revenue Stamps.
14. Bonus to Traveling Salesmen.
15. Bonus to Office Force.
16. Bonus to Factory Employees.
17. Bonus to Superintendent of Factory.
18. Fire Insurance Premiums on Factory.
19. Fire Insurance Premiums on Office.
20. Fire Insurance Premiums on Warehouses (Used to store finished goods).
21. Liability Insurance Premiums.
22. Life Insurance Premiums on Factory Employees' Lives.
23. Credit Insurance Premiums.
24. Tornado Insurance Premiums.
25. Freight Prepaid on Shipments (Not charged to customers).
26. Claims for Rebate Allowed on Sales.
27. Rent of Factory.
28. Rent of Office.
29. Advertising.
30. Traveling Expenses of Factory Superintendent to Secure Employees.
31. Traveling Expenses of Buyer.
32. Expenses of Law Suits for Collecting Accounts.
33. Law Suit Expenses Defending Suit Brought by Employee for Damages.
34. Expense of Welfare Work.
35. Fines Assessed for Violation of Child Labor Laws.
36. Depreciation on Delivery Trucks.
37. Donations to Employees.
38. Donations to Red Cross.
39. Freight on Purchases.
40 Claims Allowed on Merchandise Purchased.

CHAPTER TWO

DESIGNING AN ACCOUNTING SYSTEM

1 **The Accounting Process**
   (a) **Special journals as a means of analysis**
   (b) **Special columns as a means of analysis**

2. **Designing Accounting Records**
   (a) **Records of original entry**
   (b) **Records of final entry**
   (c) **Bound books**
   (d) **Loose-leaf records**
   (e) **Card records**
   (f) **Paper and printing**

3. **Designing Business Forms**

THE ACCOUNTING PROCESS

The accountant has not found it practical to attempt to record the transactions performed by a business directly in the accounts. Through experience, he has learned that it is better to first record the transactions in books which are termed journals. Any book which serves as a posting medium may properly be termed a journal. Books which do not serve as a posting medium, but which are used to record detailed analytical information, are usually referred to as auxiliary records. Of course, this analytical information may be combined with the recording of debits and credits, in which case, the record may serve both as an auxiliary record and as a posting medium.

To facilitate the gathering of information and save time in posting, the accountant has learned that transactions of a similar type can be recorded in one book or journal and transactions of another type can be recorded in another book or journal. Thus, in accounting practice today separate records may be kept for each distinct type of transaction. Sales transactions are recorded in a sales journal; purchase transactions in a purchase journal and cash transactions in a cash book or

journal. The accountant has learned further that special columns may be used in the journals as a means of partially classifying the information before it is posted to the accounts in the ledgers.

It is evident, therefore, that there are two methods of classifying business data in the books of original entry:

1. Through providing different journals in which transactions of like kind may be recorded

2. Through providing special columns in which transactions of like kind may be recorded.

One advantage to be gained from a proper classification of business data in the books of original entry, through the use of special journals and special columns, is the saving of time which results from summary posting. Another advantage is that the books will serve not only as a posting medium, but as an analytical medium. While the accounts provide the information from which the reports are constructed, the journals serve as a medium in which the data are recorded and partially classified before they are transferred to the accounts. Further classification of business data is provided through a proper charting of the accounts.

In collecting the information needed in recording the operations of a business, the accountant depends very largely upon the use of business forms or vouchers. The purchase invoice may provide the information needed in recording purchases. A carbon copy of the sales invoice may serve as the sales record or may provide the information needed in recording sales. Remittances or lists of remittances may provide the information needed in recording cash receipts. Receipts or the check book stub may provide the information needed in recording cash disbursements.

Other business forms used in the conduct of business and which may provide the information needed by the accounting department include notes, drafts, leases, mortgages, insurance policies, bills of lading, warehouse receipts, etc. In addition to the general business forms, other forms are used to provide information concerning the internal operations of a business. These include such forms as inter-office communications, wage tickets, pay roll sheets and requisition forms.

The chart in Illustration No. 6 shows that transactions arising from the acquisition, production, conservation, and transfer of values are recorded in journals constituting books of original entry and are posted to ledgers constituting books of final entry. It further shows that the information needed in preparing the ordinary accounting reports is obtained from the ledgers, while the information needed in preparing the statistical reports is obtained from the journals, ledgers, and other sources.

The accountant views the accounting process from the order of procedure—that is, from business forms, to journals, to ledgers, to reports, but from the viewpoint of management, the process is reversed because the management is chiefly concerned with the results exhibited in the accounting reports and with the interpretation of these results.

DESIGNING ACCOUNTING RECORDS

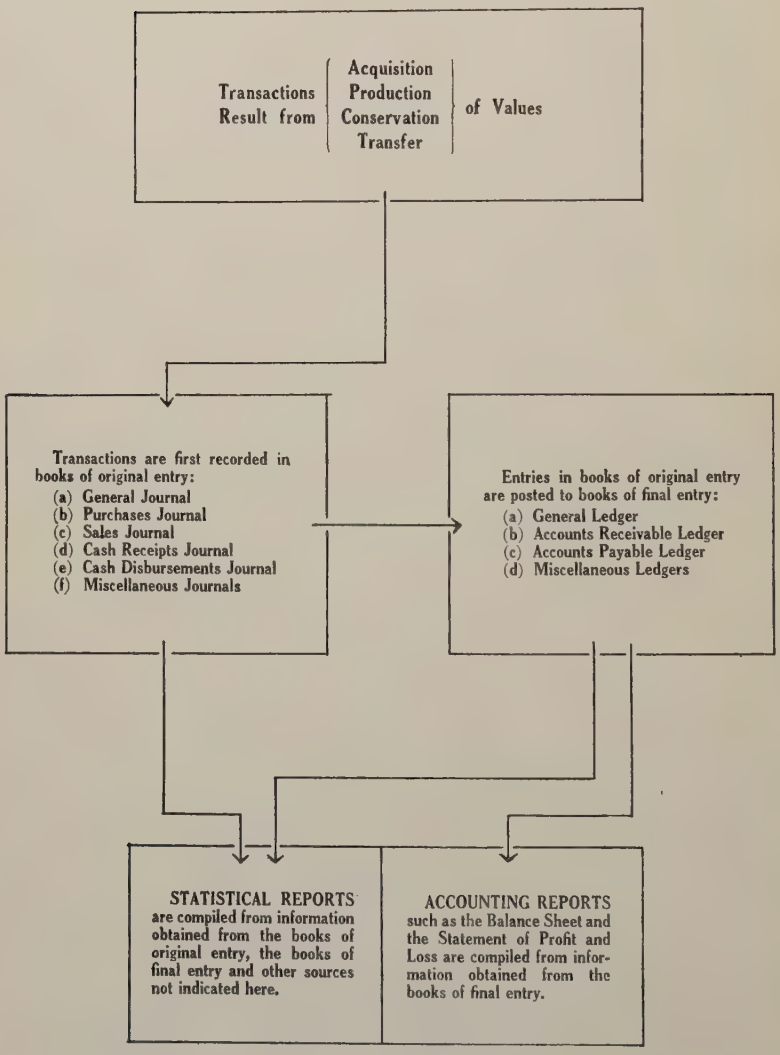
Records of Original Entry. All the transactions of a business are recorded in chronological order in the books of original entry. In recording each transaction, it is customary to indicate the date of the transaction, the names of the accounts affected, and the amount of the debits and credits. An explanation of the transaction and other information is sometimes provided in connection with the record of the transaction.

A journal may be the only book of original entry. Two money columns may be sufficient to record all the transactions, in which case one contains the debits and the other the credits. Through the use of additional columns, it may be possible to classify certain types of transactions with a view to providing for summary posting which will save time. A more efficient means of classifying the transactions is to subdivide the journal, providing different books so that transactions of a certain type may be recorded in each book.

Separate books may be provided for recording transactions affecting purchases, sales, and cash. Sometimes notes are recorded in a separate book. The cash book may be divided so that cash receipts and cash disbursements are recorded in separate books. Sometimes the journal and cash book are combined and known as a cash journal.

Records of Final Entry. The books of final entry contain the accounts. While all transactions are first recorded in the books of original entry, the entries are later posted to the

THE ACCOUNTING PROCESS


Transactions Result from
Acquisition
Production
Conservation
Transfer
of Values
Transactions are first recorded in books of original entry:
(a) General Journal
(b) Purchases Journal
(c) Sales Journal
(d) Cash Receipts Journal
(e) Cash Disbursements Journal
(f) Miscellaneous Journals
Entries in books of original entry are posted to books of final entry:
(a) General Ledger
(b) Accounts Receivable Ledger
(c) Accounts Payable Ledger
(d) Miscellaneous Ledgers
STATISTICAL REPORTS are compiled from information obtained from the books of original entry, the books of final entry and other sources not indicated here.
ACCOUNTING REPORTS such as the Balance Sheet and the Statement of Profit and Loss are compiled from information obtained from the books of final entry.

(Illustration No. 6)

accounts which are kept in the books of final entry. These books are known as ledgers. Sometimes one ledger will contain all the accounts. Like the journal, the ledger may be subdivided and any group of accounts of like nature may be kept in a separate book which is known as a subsidiary ledger. Accounts receivable may be kept in one ledger and accounts payable in another ledger. When certain types of accounts are kept in subsidiary ledgers, all remaining accounts are then kept in a general ledger. The general ledger controls the accounting system. This is accomplished by providing controlling accounts for each subsidiary ledger. These controlling accounts are kept so as to provide a summary record of the entries which are posted to individual accounts in the subsidiary ledger. Thus, the controlling account for the accounts receivable ledger will contain a summary record of all the debits and credits to the individual accounts with customers in the subsidiary ledger. Likewise, the controlling account for the accounts payable ledger will contain a summary record of all the debits and credits to the individual accounts with creditors.

The controlling accounts show the exact status of the subsidiary ledgers when all the entries in the books of original entry have been posted. This permits the bookkeeper to take a Trial Balance from the general ledger without the necessity of including all the accounts kept in the subsidiary ledgers. It also serves as a check against the work of the bookkeepers in charge of the subsidiary ledgers.

The journal and the ledger are the fundamental books of account. The journal may be subdivided as a means of partially classifying the transactions before posting to the accounts and as a means of promoting efficiency in recording the transactions. The ledger may also be divided with a view to making it possible for more than one person to do posting. If the accounts receivable are kept in one ledger, the accounts payable in another ledger, and all the remaining accounts in a general ledger, it is possible for different bookkeepers to be engaged in posting at the same time. The subsidiary ledgers may be subdivided, if necessary, to permit more than one bookkeeper working on the ledgers at the same time. The customers' ledger may be subdivided on an alphabetical, geographical or numerical basis. If subdivided on an alphabetical basis, the ledgers might be known as Customers' A-C Ledger, Customers' D-E Ledger,

etc. If subdivided on a geographical basis, the ledgers might be known as City Customers' Ledger and Country Customers' Ledger. The accountant engaged in system building should take into consideration the nature and volume of the business, frequency of transactions and personnel of the accounting department in determining the subdivision of the books of account.

The accountant should have a good understanding of the advantages and disadvantages of different types of records in order that he may have the records made up in the form best suited to the conditions under which they will be used and the needs of the firm. Books of account are usually bound or made up in loose-leaf form. Card records are sometimes used instead of either bound or loose-leaf records.

Bound Books. Bound books may be used for practically all records if desired. They are preferred for some records, such as the general ledger and private ledger. Some accountants also prefer to use a bound book for the general journal. The use of bound books prevents fraudulent substitution of pages and may be used satisfactorily for any records where the work is done by one employee. In large businesses where it is necessary to provide for a division of the work among many employees, loose-leaf records are often more desirable. In devising a set of books, the accountant needs to keep in mind the fact that provision should be made for an internal check. The general principle to be followed is that no one person shall be in complete control of any important records but that the work of each employee shall be subject to check or supervision by another employee. This will do much toward eliminating the possibility of fraud or embezzlement. Of course, there may be collusion between two or more employees but there is not so much danger of wrong-doing when provision is made for a systematic internal check.

Loose-Leaf Records. A loose-leaf record is one in which leaves may be inserted or removed at will. The ruling and printing may be the same as in bound books. There has been a rapid increase in the use of loose-leaf records in the past few years until at the present time in many businesses, all records will be found to be loose-leaf records. Since there may be no difference in the ruling and printing in loose-leaf books as com-

pared with bound books, it is only necessary to consider the advantages or disadvantages of the binding. One of the arguments in favor of bound records is that they prevent the abstraction or substitution of leaves. However, it is now possible to obtain loose-leaf binders in which provision has been made for locking the binder so that it is impossible for the leaves to be removed without proper authority. A loose-leaf record in which the binder is locked is, to all effects, the same as a bound record. At the same time, it offers the advantage of permitting the removal and substitution or addition of leaves when necessary. Usually a high grade binder is used for the original record and a cheaper binder is used for a transfer record. The binder may be made from cloth, canvas, corduroy, leather, or combinations of these materials. Cloth or canvas binders are usually used for transfer binders or for records which are not handled extensively. Corduroy or leather may be used for more important records. These will be more attractive and more serviceable.

Certain precautions may be advisable in the use of loose-leaf records in order that accurate and reliable records may be maintained. The leaves should be paged and marked in such a manner that there is no danger of a leaf being lost or left out of the binder without being readily observed. If a sheet is spoiled through accident or error in recording the transactions, it should not be removed but should be cancelled and retained in the binder. In case the danger of loss or destruction overbalances the saving from the increased efficiency ordinarily derived from the use of loose-leaf records, their use should be discouraged.

Card Records. Cards may be used for many records. Ordinarily their use is limited to the auxiliary records, but they may also be used for ledgers and certain other books of account. The use of a card system of recording transactions offers the following advantages:

1. Unlimited classification of information and expansion.

2. Greater accessibility than is possible in connection with the use of either bound or loose-leaf records.

3. Possibility of indexing on any desired basis.

The use of card ledgers may mean a saving of time in posting

because of more detailed indexing and greater accessibility of the accounts. Visible card filing systems and fireproof filing cabinets have contributed much to the popularity of card records.

Paper and Printing. When the accountant who devises a system of accounts is given permission to have the books made up, he prepares copy for the printers or blank book manufacturers. In preparing copy for the printers, the accountant should be familiar with the fundamental principles entering into the manufacturing of blank books.

Ledger paper is used in the manufacture of books of account of the better grade. This paper is made of clear rag stock, which is sized, supersized and loft dried. Sheets of paper used in the manufacture of books of account vary in size and weight. The usual sizes of ledger paper are as follows:

16 x 21	19 x 24
17 x 22	21 x 32
18 x 23	23 x 36
17 x 28	24 x 38
28 x 34	

The sizes most frequently used in books of account are the Medium, 18 x 23, and the Royal, 19 x 24. The weight of ledger paper varies from 40 pounds to 72 pounds, the basis of weight being 1,000 sheets, size 17 x 22.

In so far as possible, the books should be devised so that the size of the pages will be such that they may be cut out of standard sizes of ledger paper stock without unnecessary loss.

Having determined the proper size of the various books of account and the weight of the paper to be used, the accountant should prepare copy, ruling and lettering his forms exactly as he desires them made up. It is important to make sufficient margin allowance for binding and trimming. Light and heavy lines should be designated and the color of each line should be indicated. The size of type to be used in printing headings and other copy should be specified. The lines may be printed or ruled but it is usually better to have them ruled. The accountant should designate which is desired. Punching and perforation must also be indicated.

Binders for loose-leaf records are made in a large number of stock sizes. When designing a form for a loose-leaf record, it is advisable to select a size which will fit a standard binder if

possible, as this will be less expensive than a binder of odd or special size. In specifying the sheet size for a binder, it is customary to give the dimension of the binder margin first, followed by the width of the sheet, distance between center of outside holes, and number and size of posts.

The accountant should request the printer to submit a hand ruled sheet as a proof of the ruling. At the same time, the accountant should request a proof of the composition so that the ruled sheet and the composition may be shadowed or compared and any imperfections in spacing noted and corrected.

After the ruling and composition have been checked, they should be approved and returned to the printers with an order specifying the paper stock to be used, the number of pages to be bound in each book and the quality of binding desired. The binding of books of account should be durable and designed to stand hard wear. The books should be sewed with thread, trimmed, edges stained, and burnished. The cover of a book is known by printers as the case. The case of a well-bound book should be made of three layers of binder's board—the two outer layers consisting of strong, hard board, and the inner layer consisting of softer board. This will insure strength and prevent the covers from warping. The books should be properly lettered. The title of the book is usually placed in the upper panel. The number or letter denoting the book is placed in the center and the firm name in the lower panel.

DESIGNING BUSINESS FORMS

It is important that care be used in designing and preparing business forms. The purpose which each form is to serve and the information needed in connection with its use will determine largely the proper arrangement of the form. The arrangement should, of course, be such as to facilitate the recording of the information. Each form should be given a title. This usually appears at the top of the form. It is also customary to assign each form a stock number which will aid in distinguishing one form from another. In preparing business forms, there are many things to consider, such as distinguishing title and number; shape and size of form; color, weight and kind of paper; size and style of type; general appearance, etc.

While ledger paper is ordinarily used in the manufacture of blank books, bond paper is usually used for business forms.

The accountant should be familiar with the principles involved in preparing copy for the printers and should be able to intelligently select the proper quality and weight of paper to be used. In ordering the forms, the accountant should specify not only the quality and weight of paper to be used but should also specify the size of sheets from which the forms are to be cut. If the size of the forms is carefully determined and paper of the proper size is specified, there should be practically no loss in cutting the forms. While it is important for the accountant to have some knowledge of paper stock, ruling, printing and book binding, it is not expected that he be an expert along this line. Any desired information can usually be obtained from the printers or blank book manufacturers who are engaged to print the forms or manufacture the books of account.

Considerable attention has been given during the past few years to the standardization of business forms in the hope that uniformly good data might be obtained with less waste. It is contended that the following advantages will result from the use of these standard business forms:

1. Eliminate misunderstandings and inconveniences.
2. Expedite shipments and the settlements of accounts.
3. Save money by reducing clerical personnel.
4. Save paper by cutting from standard size stock without waste.
5. Save correspondence, being so prepared that all necessary information is included on the forms themselves.
6. Save time in filing, finding, and handling while being checked.
7. Save filing space, all forms being susceptible to folding to the same size.

It is important that the printers be given unmistakable instructions in regard to forms to be printed. It is not sufficient that the copy be properly prepared although this is very important. Indefinite or incomplete instructions to the printers are responsible for most spoiled jobs. It is an accepted rule among printers that copy must be followed, but still much confusion arises from the lack of specific instructions on such items as the following:

1. Total number of forms to be printed. Care should be taken to avoid confusion on this point when sets, books, pads or units other than single sheets or forms are ordered.

2. Name or key number of form. It is usually best to give all forms an identification number.

3. Exact size of completed form. If small differences in size are important, or if the form is to be used in any sort of machine, the printer should be given complete details.

4. Precise specification of paper to be used, including brand, weight, color, finish, and (occasionally) grain. If carbon copies are ordered, paper specifications should be given clearly for each of the copies.

5. The color, or colors of ink. If parts of the copy are to be printed in different colors of ink, the copy should be boldly and clearly marked. If no color is indicated the printer will either assume that the form is to be printed in black, or else that it is to be printed in the color previously used.

6. Exact position of perforations, punchings, and special die cuts. Sometimes these must be registered exactly with reference to one or more of the edges of the form; sometimes they must be placed with reference to the copy. Instructions should cover these points.

All instructions given the printers should be in writing and a carbon copy should be retained for future reference. If it becomes necessary to give subsequent instructions orally, or by telephone, they should be confirmed in writing so as to avoid danger of misunderstanding.

SUMMARY

A thorough knowledge of accounting procedure is essential to success in system building but such knowledge alone is not a sufficient qualification to enable one to be successful in designing the records and forms which make up an accounting system. Some knowledge of the mechanical make-up of records, of the advantages and disadvantages of bound, loose-leaf, and card records and of paper and printing is also necessary. The accountant engaged in system building should be able to design a set of records which will conform to the needs of the business. After designing such records, he should be able to prepare copy for the printers and blank book manufacturers and to give definite instructions as to how he wants the records made up. Obviously, he will need to know something about the weight and sizes of different kinds of paper, the style and different

sizes of type, and he will also need to know something about ruling.

The records are of three classes:

1. Those constituting the records of original entry usually known as journals.

2. Those constituting the records of final entry usually known as ledgers.

3. Those supplementary records which are usually known as auxiliary records.

In addition to such records, business forms or vouchers will be required in transacting business, such as, requisition forms, purchase invoice forms, sales tickets, sales invoice forms, checks, notes, drafts, etc. These forms are a necessary part of an accounting system. They are directly related to the recording of transactions because they provide most of the information needed in recording the transactions.

Accounting systems are not always completely designed at a particular time. More often they grow and expand as the business increases. Sometimes an entirely new system is designed and installed. This, of course, is usually done by public accountants who specialize in system building. However, much constructive accounting work can be done by the one who is in charge of the accounting department provided he has a proper understanding of the principles involved and a sufficiently broad knowledge of business to enable him to provide for a proper correlation of the accounting functions with the other departmental functions of the business. It is important to know that the accounting system must be made to fit the business rather than the business to fit the accounting system.

QUESTIONS

2—11. Outline the procedure in recording the operations of a business.

2—12. Into what groups may books of account be classified?

2—13. Distinguish between books of original entry, books of final entry, and auxiliary records.

2—14. (a) What are the fundamental books of account?

(b) Why is it sometimes necessary to subdivide the books of account?

2—15. (a) Into what special books may the journal be subdivided?

(b) What accounts are usually kept in subsidiary ledgers?

2—16. Explain how the accountant classifies business data and what determines the proper subdivision of the books of account?

2—17. (a) What is a controlling account?

(b) What advantages are there in keeping controlling accounts in the general ledger for each group of accounts maintained in the subsidiary ledgers?

2—18. What general principles should govern a public accountant in the establishment of a system of accounts in any business?

2—19. (a) State some of the advantages and disadvantages of bound books of account. (b) Loose-leaf books of account.

2—20. (a) What does the accountant need to know in regard to paper, ruling, printing, and binding in devising the records and forms to be used in an accounting system?

(b) What benefits may be derived from the adoption and use of standard business forms?

PROBLEMS

2—5. The E. H. Roberts Company was incorporated under the laws of Delaware in 1910. The company is engaged in the wholesale mercantile business, selling to retail stores on a cash, C. O. D., and credit basis. Credit terms are 2/10; n/30. The sales of the company have been increasing at the rate of about 10% per year for the past five years and it has been decided to install a modern accounting system.

You have been engaged to devise and install a new system. The following Trial Balance as of December 31, 1929, was submitted to you and you find upon investigation that it was taken after posting the necessary adjusting entries for accruals, deferred items, and reserves. The Cost of Sales account is a summary account which had been debited for the inventory taken on December 31, 1928, amounting to $7,125.10 and with the purchases for the year amounting to $24,104.90. The account had been credited for the inventory on December 31, 1929, amounting to $2,935.50.

You also learn upon inquiry that the management desires to have the Balance Sheet and Profit and Loss Statement prepared monthly so that it will not be necessary to wait until the end of the year to determine what progress the company is making and the results of its operations. You find that the company possesses the following mechanical equipment for use in the accounting department:

Adding machine
Billing machine
Calculating machine
Posting machine

The billing machine is used in preparing sales invoices and it has been the custom of the company to make two copies of each invoice, the original going to the customer and the carbon copy going to the bookkeeper for recording in a bound sales book. It has been the custom to have the orders interpreted by a clerk who would indicate on the order what was to be shipped. The original order was then referred to the shipping department and after the goods were packed and shipped, the order was referred to the billing clerk for billing.

THE E. H. ROBERTS CO.
Trial Balance, December 31, 1929

Cash	$ 4,750.28	
Notes Receivable	1,950.00	
Accounts Receivable	18,180.85	
Inventory, December 31, 1929	3,925.50	
Insurance Unexpired	165.00	
Office Supplies on Hand	75.70	
Advertising Matter on Hand	82.50	
Land (Cost)	5,000.00	
Buildings (Cost)	12,000.00	
Office Equipment (Cost)	725.00	
Store Equipment (Cost)	1,290.00	
Mortgage Payable		$ 6,000.00
Accounts Payable		5,073.91
Notes Payable		1,500.00
Accrued Interest:		
Mortgage Payable		30.00
Notes Payable		10.00
Capital Stock		25,000.00
Surplus		2,190.50
Reserves for Depreciation:		
Buildings		750.00
Office Equipment		175.60
Store Equipment		240.75
Reserve for Loss on Bad Debts		375.10
Sales		43,120.38
Sales Returns	275.60	
Interest on Notes Receivable		17.15
Interest on Notes Payable	41.00	
Interest on Mortgage Payable	180.00	
Discounts on Purchases		195.32
Discounts on Sales	500.00	
Rent Income		600.00
Taxes and Insurance:		
On Building	185.00	
On Stock and Fixtures	66.00	
Repairs to Building	32.50	
Salaries of Salesmen	2,610.00	
Expenses of Salesmen	400.00	
Advertising	653.00	
Delivery Expenses	118.73	
Office Salaries	1,325.00	
Store Salaries	3,120.00	
General Office Expenses	115.80	
Cost of Sales	27,304.50	
Purchases Returns		216.28
Freight on Purchases	69.28	
Depreciation of Building	150.00	
General Store Expenses	203.75	
	$85,494.99	$85,494.99

It has been the custom of the company to refer purchase invoices to a receiving clerk to hold until the goods were received and checked in. Any discrepancies were then noted on the invoice after which it was referred to the accounting department. Statements have been rendered customers monthly. It has been the custom to mail the statements as soon after the first of each month as they could be prepared. Sometimes, however, they were not mailed earlier than the 10th of the month.

You are required to analyze the foregoing Trial Balance and other data given and prepare a report providing the following information:

(a) Type of legal organization

(b) Nature of business

(c) A complete chart of accounts with suitable code numbers

(d) A Balance Sheet and Profit and Loss Statement based upon the Trial Balance and other information given. These statements should be prepared in the form which you recommend for the monthly statements.

(e) Explain how the inventory may be ascertained for the purpose of monthly statements without taking a physical inventory.

2—6. The following chart of accounts was prepared for The Queen City Hardware Company by a firm of accountants in which you are employed as a junior accountant. Your employer directs you to prepare pro forma statements including a Balance Sheet and Profit and Loss Statement, using the account titles without figures. The object is to provide the bookkeeper of The Queen City Hardware Company with model statement forms.

THE QUEEN CITY HARDWARE CO.

Chart of Accounts

Cash Accounts

A 1—First National Bank
A 2—Citizens' State Bank
A 3—Petty Cash Fund (Imprest)
A 4—Salesmen's Working Funds

Notes Receivable

B 1—Notes Receivable—Customers
B 2—Notes Receivable—Sundry
  (a) Officers and Employees
  (b) Miscellaneous

Accounts Receivable

C 1—Accounts Receivable—Customers (Controlling)
  (a) Sales Ledger—Local
  (b) Sales Ledger—Central
  (c) Sales Ledger—Northern
  (d) Sales Ledger—Southern

C 2—Accounts Receivable—Sundry
- (a) Salesmen
- (b) Officers and Employees
- (c) Miscellaneous

Inventories

D 1—Builders' Hardware
D 2—Builders' Tools
D 3—Shelf Hardware
D 4—Household Goods
D 5—Sporting Goods
D 6—Cutlery
D 7—Cordage
D 8—Belting and Hose
D 9—Wire and Fencing
D 10—Stoves
D 11—Office Supplies
D 12—Packing Supplies
D 13—General Supplies
D 14—Fuel

Property and Equipment

E 1—Real Estate—Land
E 2—Buildings
E 3—Building Fixtures
E 4—Store Fixtures
E 5—Office Equipment
E 6—Truck Equipment
E 7—Automobiles

Investments and Intangibles

F 1—Securities Owned (U. S. Liberty Bonds)
F 2—Goodwill
F 3—Organization Expense

Deferred and Suspense Accounts

G 1—Prepaid Insurance
G 2—Prepaid Taxes
G 3—Prepaid Interest
G 4—Post-dated Checks
G 5—Freight Claims
G 6—Catalog Clearing account
G 7—Freight Clearing account
G 8—Purchases in Transit account
G 9—Accounts Receivable—Suspense

Notes Payable

H 1—Notes Payable—Banks
H 2—Notes Payable—Sundry

Accounts Payable

I 1—Accounts Payable—Audited Invoices (Controlling)

I 2—Accounts Payable—Sundry
  (a) Salesmen
  (b) Accrued
  (c) Miscellaneous
I 3—Pay Roll Payable
I 4—Dividends Payable

Reserve Accounts

J 1—Reserve for Loss on Bad Debts
J 2—Reserve for Depreciation—Buildings
J 3—Reserve for Depreciation—Building Fixtures
J 4—Reserve for Depreciation—Store Fixtures
J 5—Reserve for Depreciation—Office Equipment
J 6—Reserve for Depreciation—Truck Equipment
J 7—Reserve for Depreciation—Automobiles

Capital Accounts

K 1—Capital Stock—Preferred
K 2—Capital Stock—Common
K 3—Surplus
K 4—Profit and Loss

Trading Accounts

L 1—Sales (By Territory)
  (a) Local
  (b) Central
  (c) Northern
  (d) Southern
L 2—Returns and Allowances (By Territory)
  (a) Local
  (b) Central
  (c) Northern
  (d) Southern
L 3—Cost of Sales (By Territory)
  (a) Local
  (b) Central
  (c) Northern
  (d) Southern

Administrative Expenses

M 1—Salaries—Executive Officers
M 2—Expenses—Executive Officers
M 3—Directors' Fees and Expenses
M 4—Automobile Expense
M 5—Office Salaries and Wages
M 6—General Stationery and Supplies
M 7—General Postage and Telegraph
M 8—General Telephone Service
M 9—Indemnity Bonds
M10—Legal and Collection Expense
M11—Provision for Bad Debts

Selling Expenses
- N 1—Salesmen's Salaries
- N 2—Sales Managers' Salaries
- N 3—Commissions of Salesmen
- N 4—Traveling Expenses
- N 5—Entertainment Expenses
- N 6—Advertising
- N 7—Catalog Expense
- N 8—Sales Office Salaries
- N 9—Sales Office Supplies
- N 10—Sales Office Postage
- N 11—Sales Office Telegrams

Handling and Shipping Expenses
- P 1—Warehouse Wages
- P 2—Storeroom Wages
- P 3—Boxing and Packing Supplies
- P 4—Freight and Cartage Out
- P 5—Trucking Wages
- P 6—Trucking Expense

General Expenses
- R 1—Electric Light and Power
- R 2—Heating of Building
- R 3—Maintenance and Repairs
- R 4—Janitor Supplies and Expense
- R 5—Rent of Warehouse
- R 6—Insurance
- R 7—Taxes
- R 8—Depreciation

Income Credits
- S 1—Cash Discounts on Purchases
- S 2—Interest Earned

Income Debits
- T 1—Cash Discounts on Sales
- T 2—Interest Expense

Frequently, the accounts are summarized in the statements. In other words, the statements are prepared in condensed form, the accounts being listed in major groups. It is suggested that this plan be followed in preparing the model statements for the Queen City Hardware Company. For instance, in listing the assets on the Balance Sheet, cash, notes receivable, accounts receivable, inventories, and other groups of asset accounts may be listed as single items. Thus, the cash accounts A 1–A 4 would appear on the Balance Sheet as a single item. It is well, however, to list the customers' notes receivable and sundry notes receivable separately. It is not advisable to summarize the property and equipment accounts but it is better to list each separately so that the reserve for depreciation accounts may be shown as a deduction from the specific asset accounts to which they apply.

In preparing the Profit and Loss Statement, it is not necessary to list the individual operating expense accounts. Simply list them according to the group titles.

CHAPTER THREE

PURCHASES RECORDS AND FORMS

1. **Purchasing Department Procedure**
   - (a) **Purchase requisitions**
   - (b) **Purchase orders**
   - (c) **Purchase invoices**
   - (d) **Purchase order register**

2. **Purchase Records**
   - (a) **Purchases journal**
   - (b) **Invoice register**
   - (c) **Purchases returns journal**

3. **Voucher System**
   - (a) **The journal voucher.**
   - (b) **The purchase and expense voucher.**
   - (c) **The voucher register**
   - (d) **Voucher Accounting Procedure**

PURCHASING DEPARTMENT PROCEDURE

Goods must be either purchased or produced before they can be sold, hence purchasing is one of the most important functions of a business. In a small firm the buying may be done by the general manager or some other official of the company and it may require but a small part of his time. In a large business a separate department may be maintained with a manager in charge who is responsible for buying all of the merchandise and who devotes his entire time to the buying. The successful operation of such a department requires an efficient organization with capable employees and efficient equipment. There should be a definite procedure for handling the business and recording the operations of the department. The work of the department will consist of the handling of requisitions, inquiries, quotations, orders, invoices, and returns.

Purchase requisitions may come to the purchasing department from any other department of a business although usually they come from the stores department. These requisitions may call for supplies, materials, equipment, machinery, stock-in-

trade, etc., depending upon the nature of the business and its requirements. The form of requisition will vary in different businesses but it should be designed to provide the following information:

1. Requisition number
2. Description of articles wanted
3. Quantity needed
4. When desired
5. Purpose.

A duplicate copy of the requisition should be retained in the department of origin. Sometimes copies must go to other departments to be kept on file for future reference. Following the receipt of purchase requisitions, the purchasing department will proceed to obtain information in regard to prices, delivery date, and such other information as may be necessary in buying intelligently, after which orders will be placed for the desired goods. When the goods are received, the incoming shipment should be checked with the order. Usually this is done in the receiving department by a clerk who does not know the quantity ordered but who reports the quantity received to the purchasing department where it is checked with the original order to see if there is any variation in the quantity of goods received from the quantity ordered. The purchasing department also handles returns.

Special forms are required for completing each of these operations, such as, purchase requisitions, purchase inquiries, quotations, purchase orders, purchase invoices, receiving department reports, and purchase returns forms.

A quotation record will facilitate the handling of purchase requisitions and the placing of orders. Either a card or loose-leaf system may be used for this record. The record should be designed so as to provide complete information on each article which the purchasing department may handle. Usually a separate card or sheet is kept for each article. This card or sheet should not only show the name of the article for which quotations have been received from various firms, but it should also show the date on which the quotations were made, the name and address of the firm from whom quotations have been received and complete data on list prices, discounts, net cost, and terms. When this information is available in the purchasing department, it is obviously an aid in placing orders.

Suitable forms for use in the receiving department will be an aid in providing the purchasing department with proper information pertaining to the receipt of merchandise and other items ordered. A receiving report should be designed for use in reporting information on goods received. Usually a record is provided for recording all incoming shipments. This is a permanent record kept in the receiving department. It provides a record of each incoming shipment, showing the name and address of the shipper, number of articles, such as, cases, boxes or packages received, weight, transportation charges, name of transportation company, condition of goods when received, and the requisition number. A separate form is used by the clerks in checking and reporting the contents of each case or package. This report should be prepared in duplicate, the original copy going to the purchasing department for comparison with the invoice and the duplicate copy being retained in the receiving department. This report provides information regarding the content of each case or package. When this information is checked against the original purchase order, any discrepancy should readily be noted. A carefully designed system of reporting information regarding incoming shipments is important. It will facilitate the handling of claims for adjustment due to shortage or defective goods.

The National Association of Purchasing Agents recommends the use of standard inquiry, order, and invoice forms. The standard forms approved by this association are shown in Illustrations Nos. 7, 8, and 9. These forms should be made 8½ inches wide and either 7, 11, or 14 inches long. In using these forms, as many duplicate copies should be made as are needed, depending upon the organization set-up. Sometimes all purchase orders are recorded in a Purchase Order Register but usually the duplicate copies will suffice for follow-up purposes and for future reference as an aid to placing additional orders.

The inquiry form shown in Illustration No. 7 was designed for use by The Millville Publishing Co. The form illustrated shows that this company is asking for quotations on specified items from the Remington Rand Business Service. This form is made out in duplicate so that both companies will have a copy on file for reference after receipt of the reply by The Millville Publishing Company.

INQUIRY

THE MILLVILLE PUBLISHING CO.

Address reply to
512 Walnut Street
Philadelphia, Pa.

Number *151*

Date, *Sept. 1, 1929*

INQUIRY SUBMITTED BY ABOVE

To *Remington Rand Business Service*
Buffalo, N. Y.

THIS IS NOT AN ORDER

Please Note Carefully

This inquiry implies no obligation on the part of the buyer.
Unless otherwise understood there is no restriction on the number of items or the quantity that may be ordered.
In quoting use duplicate of this form provided.
Fill in complete information before returning.
If substitutes are offered make full explanation. Do not quote on articles you cannot supply.

Delivery Point			
By	____	Parcel Post	If not indicated please suggest most practical way
Philadelphia, Pa.	____	Express	
	____	Freight	

Please quote delivered price if possible, otherwise the following transportation rates will apply.....

Shipping point.....Is delivered price given?.....

Terms—Net Cash.....days....%....days..... including containers.....

Does price include containers?.....Are containers returnable?.....

Cat. No.	Quan.	Item and Specifications	*	Unit	List Price of Unit	Discount Offered	Net Unit Price	Estimated Gross Wt.
9.62	*6M lbs.*	*Speedac, 6x4, buff*	√					
9.62	*2M lbs.*	*Speedac, 6x4, salmon*	√					
9.62	*2M lbs.*	*Speedac, 6x4, blue*	√					
.027	*2M*	*Signals, green*	√					
9234	*1*	*Steel Table, green*	√					
.851	*1*	*Cabinet, Mahog.*	√					
		THIS IS NOT AN ORDER						

*Check in this column indicates shipment can be made from stock.
Delivery of other items as follows.....
Prices subject to withdrawal.....Date returned.....

Keep this copy for your files.
Return pink sheet with full information.

ALBERT WILSON
Purchasing Agent

Facsimile of National Standard Inquiry Form

(Illustration No. 7)

PURCHASE ORDER

THE MILLVILLE PUBLISHING CO.

512 WALNUT STREET
PHILADELPHIA, PA.

Order No. *9228*

This No. must appear on invoice, B/L cases, bundles, packing lists and correspondence.

Sept. 10, 1929

Remington Rand Business Service
Buffalo, N. Y.

Shipment
F. O. B.
Frt. Allowed
Quotation
Inquiry No. *151*
Terms
Mark for

Please ship the following merchandise subject to conditions below:

Ship to *The Millville Publishing Co.*
512 Walnut Street
Philadelphia, Pa.

Via *Express*

CONDITIONS

Acknowledgment form accompanying must be executed and returned at once.
No charges allowed for boxing, crating or packing.
If price is not shown on the original order sheet, it must be inserted by you on the attached acknowledgment to be returned to us.
Goods subject to our inspection on arrival, notwithstanding prior payment to obtain cash discount.
Goods rejected on account of inferior quality or workmanship will be returned to you with charge for transportation both ways, plus labor reloading, trucking, etc., and are not to be replaced except upon receipt of written instructions from us.

Cat. No.	Quan.	Description	Price
0.62	6 M lbs.	Speedac, 6 x 4, buff	7 75
0.62	2 M lbs.	Speedac, 6 x 4, salmon	7 75
0.62	2 M lbs.	Speedac, 6 x 4, blue	7 75
.027	2 M	Signals, green	1 00
.851	1	Cabinet, mahogany	61 25

Mail invoices
in triplicate and original B/L
to Purchasing department

ALBERT WILSON
Purchasing Agent

PR-7-5M-5-23. A. S. B. CO.

Facsimile of National Standard Purchase Order Form
(Illustration No. 8)

REMINGTON RAND BUSINESS SERVICE
Buffalo, New York

Customer
Ord. No. *9228* Invoice Date, *Sept. 12, 1929* Column reserved for the use of customer.
Date *Sept. 10. 1929* Invoice No. *1775*
Requisition No. Shipper's Order No. P. A. Invoice No.
Contract No. Voucher No.
Shipped To

Terms: Net Cash

The Millville Publishing Co.
512 Walnut St.
Philadelphia, Pa.

CHECKED
With order √
F. O. B. point √
Price √
Calculations √
Transportation √
Trans. Chgd. Back

Date Shipped *Sept. 13, 1929* From F. O. B.
Car No. and Int.
How Shipped and Route

Description	Quantity (Show Unit)	Price Per Unit	Amount
Speedac, 6 x 4, buff	*6M lbs.*	*7 75*	*46 50*
Speedac, 6 x 4, salmon	*2 M lbs.*	*7 75*	*15 50*
Speedac, 6 x 4, blue	*2 M lbs.*	*7 75*	*15 50*
Signals, green	*2 M*	*1 00*	*2 00*
Cabinet, mahogany	*1*	*61 25*	*61 25*
Total			*140 75*

Above Materials received..... .....19..... and found..... satisfactory
(Signed).....(Title).....
Charge Account Approved Approved

N. A. P. A. 5

Facsimile of the National Standard Invoice Form
(Illustration No. 9)

In Illustration No. 8, The Millville Publishing Co. has placed an order with the Remington Rand Business Service for all of the items listed on the inquiry form excepting the table which was not ordered.

In Illustration No. 9, the Remington Rand Business Service is billing The Millville Publishing Co. for the items ordered.

PURCHASE RECORDS

Purchases invoices may be recorded in a general journal but when these transactions are numerous, it is customary to record them in a special purchases journal. The use of a special journal will result in a saving of time in recording and in posting. It also facilitates analysis and a classification of the goods on any desired basis.

Purchases Journal. As the title indicates, the purchases journal is used to record purchases. The record may be called a Purchases Book, Invoice Book, Purchases Register, or Charge Register, but regardless of the name applied to it, it is a subdivision of the general journal and is a book of original entry constituting a record of purchases.

Most firms purchase merchandise and supplies on account. However, occasionally goods or supplies may be purchased for cash. Regardless of the terms of purchase, all purchase invoices are usually recorded in the purchases journal. This is necessary if a columnar journal is used providing for a classification of purchases. Where no classification is provided for, cash purchases may be recorded either in the purchases journal or in the cash book.

The purchases journal may be used for recording purchases of merchandise only, or it may be designed so that it may be used for recording all invoices regardless of whether they represent purchases of merchandise, supplies, fixed assets, or expense bills. In the latter case, the record is usually known as a voucher register or accounts payable register.

The purchases invoices might be pasted in a book in which columns have been provided at the right for distribution. This form of purchases record was formerly used quite extensively and will still be found in use in many small businesses. It is, perhaps, the most simple form of purchases record, but is objectionable for the reason that it is cumbersome and inefficient. It is difficult to locate particular invoices and often the desired

PURCHASES JOURNAL

DATE		F.	ACCOUNT (CR.)	INV. DATE	AMOUNT	
1929 Jan.	2		Central Supply Co.	12/31	229	87
	4		City Hardware Co.	1/2	298	45
	10		Morrison & Co.	1/7	182	45
	15		C. R. Clark & Co.	1/12	189	41

(Illustration No. 10)

distribution cannot be made. To overcome this objectionable form of purchases record, a plan has been developed whereby each invoice is numbered and a book entry is made to show only the essential information and to serve as a posting medium. The invoices are then filed either numerically or alphabetically so that they are always available for reference should more information be desired than is provided in the book record.

The purchases journal shown in Illustration No. 10 is the simplest form of record which may be designed for use in recording purchase invoices. No provision is made for classification or distribution of the merchandise purchased. Merchandise invoices only are to be recorded in this journal. Invoices for supplies or other assets purchased are recorded in the general journal or cash book, depending upon whether the purchase is made for credit or cash. This form of purchases journal serves as a posting medium only. The amount of each invoice is posted to the credit of the account representing the firm from whom the purchase was made. If the accounts with creditors are kept in a subsidiary ledger, the aggregate amount credited to the individual accounts during the accounting period must also be credited to the controlling account in the general ledger which is usually entitled Accounts Payable. The total purchases for the accounting period is debited to the Purchases account. Thus, it will be seen that at least some time is saved in posting because of the summary posting which is made possible through the use of a special journal for recording purchase invoices.

The entires appearing in Illustration No. 10 are based upon the following transactions completed by James Biddle, proprietor of a retail mercantile business:

Jan. 2. 1929. Purchased from The Central Supply Company, merchandise per invoice of December 31, $229.87. Terms n/30.

4. Bought from the City Hardware Company, merchandise amounting to $298.45 per invoice of January 2. Terms 2/10; n/30.

PURCHASES JOURNAL

DATE	No.	ACCOUNT (CR.)	F.	AMOUNT OF INVOICE	DISTRIBUTION OF COMMODITIES									
					WHEAT		CORN		OATS		BARLEY		SUNDRIES	
					Bu.	Amount	Bu.	Amount	Bu.	Amount	Bu.	Amount	Bu.	Amount
1929														
Feb. 2	1	*Ill. Elevator Co.*		189 —	100	118 —	50	46 50	50	24 50				
5	2	*C. D. Haywood*		114 96	88	102 96					25	12 —		
10	3	*Lipsey & Co.*		187 50	100	115 —			50	24 —			50	48 50

(Illustration No. 11)

PURCHASES JOURNAL

DATE	No.	ACCOUNT (CR.)	F.	AMOUNT OF INVOICE	DISTRIBUTION OF DEPARTMENTAL PURCHASES (DR.)				
					Dept. A	Dept. B	Dept. C	Dept. D	Dept. E
1929									
Mar. 2	1	*W. R. Logan Co.*		369 29	200 —	50 —	118 29		
8	2	*Central Supply Co.*		2480 —	1000 —	700 —	500 —	180 —	100 —
11	3	*Local Supply Co.*		42 30	42 30				

(Illustration No. 12)

10. Received invoice from Morrison & Co. for $182.45, invoice dated January 7. Terms n/30.

15. Bought from C. R. Clark & Co., merchandise per invoice of January 12, $189.41. Terms 2/10; n/30.

Usually it is desired to analyze the purchases for the purpose of distribution. There are two ways in which this may be done. Special columns may be provided in the purchases journal for providing for any desired distribution, or a recapitulation of purchase invoices may be made at the end of each month in connection with which, provision may be made for the desired distribution. The distribution may be made on a basis of commodities, departments, branches, factories, or on some other basis.

The form of purchases journal shown in Illustration No. 11 may be used when it is desired to make a distribution of the merchandise purchased on a commodity basis. It also provides for keeping a record of the quantity of each commodity purchased. This is desirable when a book inventory or stock record is maintained.

In posting from this form of purchases journal the total amount of each invoice is posted to the credit of the account representing the firm from whom the purchase was made. At the end of each accounting period the total amount of invoices recorded in the purchases journal is ascertained by footing the column and this amount is posted to the debit of the Purchases account. If the creditors accounts are kept in a subsidiary ledger this amount will also be posted to the credit of the controlling account with Accounts Payable in the general ledger. If a running inventory or stock record is kept, the quantity and cost of each item will be recorded in the stock record currently.

The entries appearing in Illustration No. 11 are based upon the following transactions completed by the Standard Milling Co.:

Feb. 2. 1929. Purchased from the Illinois Elevator Co. 100 bushel of wheat @ $1.18; 50 bushel of corn @ 93¢ and 50 bushel of oats @ 49¢, per invoice of January 25. Total amount of invoice $189.00. Terms n/30.

5. Purchased from C. D. Haywood 88 bushel of wheat @ $1.17 and 25 bushel of barley @ 48c. Total amount of invoice dated February 2, $114.96. Terms n/30.

10. Purchased from Lipsey & Co. 100 bushel of wheat @ $1.15; 50 bushel of oats @ 48¢ and 50 bushel of rye @ 97¢, invoice dated February 8. Total amount $187.50. Terms n/10.

If it is desired to know the results of operations by departments, it will be advisable to distribute purchases by departments. Illustration No. 12 shows a form of purchases journal in which provision is made for distributing the purchases by departments. When departmental purchases accounts are kept in the general ledger, no general purchases account need be kept. If it is desired to keep both a general purchases account and departmental purchases accounts, the latter should be subsidiary to the former.

When a distribution of purchases is made on a departmental basis it is usually desired to keep separate purchases accounts for each department, hence, at the end of each accounting period the total of the departmental columns will be posted to the debit of the departmental purchases accounts. Of course, the amount of each invoice is as usual, credited to the account of the firm from whom the purchase was made, and if these individual accounts are kept in a subsidiary ledger, the total purchases must also be posted to the credit of the controlling account with Accounts Payable in the general ledger.

The entries appearing in Illustration No. 12 are based upon the following transactions completed by the Wilcox-Jones Co. which operates a retail department store:

Mar. 2. 1929. Purchased goods from the W. R. Logan Co. per invoice dated March 1, amounting to $368.29 to be distributed as follows: Dept. A $200.00; Dept. B $50.00, and Dept. C $118.29.

8. Received invoice dated March 5 for merchandise ordered from the Central Supply Co. amounting to $2,480.00, terms 5/10, 2/30, n/60, distribution as follows: Dept. A $1,000.00; Dept. B $700.00; Dept. C $500.00; Dept. D $180.00, and Dept. E $100.00.

11. Purchased merchandise on account from the Local Supply Co. amounting to $42.30. Goods delivered to Dept. A.

All invoices may be recorded in one book including the invoices for merchandise or stock-in-trade and invoices representing expense bills or purchases of property other than stock-in-trade. This book is usually known as an invoice or voucher register rather than a purchases journal because it is a register in which all the invoices are recorded. Special columns provide for the desired distribution of various invoices. Illustration No. 13 shows an invoice register in which provision has been

made for a distribution of merchandise by departments, expenses by departments, and classification of freight in and administrative expenses. On the right, it will be noted that columns are provided for recording sundry invoices which represent purchases of property other than stock-in-trade.

This form of invoice register provides for a departmental distribution of purchases and expenses. If desired, provision may be made for distributing both the purchases and expenses by branches or factories instead of departments. In a branch store organization, it is desirable to know the results of operating each branch. To obtain this information, it is necessary to make provision in the accounting system for recording the operations of each branch in separate accounts. Likewise, if a concern operates more than one factory, it may be desirable to know the results of operations in each factory, hence it may be desired to distribute all manufacturing expenses by factories.

If all purchase and expense transactions are to be recorded in the invoice register, it is obvious that an invoice or voucher should represent each transaction. The purchase invoice forms will represent purchase transactions. Bills or invoices may also represent purchases of expense items and assets. Other forms or vouchers will represent expenses such as Labor and Office Salaries for which no invoice would ordinarily be received.

In posting from an invoice register such as is shown in Illustration No. 13, the amount of each invoice is credited to the account indicated. If a general purchases account is kept, the total of the purchases column will be posted to the debit of that account, otherwise the totals of the departmental columns will be posted to the debit of the departmental purchases accounts. Since the reason for the distribution of purchases on a departmental basis is to provide a record of purchases for each department, it is to be expected that separate departmental purchases accounts will be kept. As previously explained, the total purchases must be posted to the credit of the controlling account for Accounts Payable in case individual accounts are kept in a subsidiary ledger. The total of the departmental expense columns will also be posted to the debit of the proper departmental expense accounts. Likewise, the total of the columns headed Freight In and Administrative Expense will be posted to the debit of the corresponding accounts. Items recorded in the Sundries column will be posted individually

to the proper accounts. Only those items are recorded in these columns for which special columns have not been provided.

The entries appearing in Illustration No. 13 are the result of the following transactions completed by John W. Clark & Co.:

Apr. 1. 1929. Purchased merchandise from Short and Hunt amounting to $376.84. Terms 2/30; n/30. Distribution: Dept. A $176.84; Dept. B $150.00; Dept. C $50.00.

6. Received invoice from the City Printing Co. for merchandise amounting to $729.98. Terms n/30. Distribution: Dept. A $320.00; Dept. C $168.50; Dept. D $241.48.

10. Record voucher for pay roll amounting to $580.00 to be distributed as follows: Dept. A $200.00; Dept. B $175.00; Dept. C $125.00; Dept. D $80.00. Also record voucher for office salaries amounting to $450.00.

13. Received invoice from the Southern Railroad for freight charges amounting to $78.25.

15. Purchased office equipment from the Standard Appliance Co. per invoice of April 10, $750.00. Terms 2/10; n/30.

Purchases Returns Journal. In most businesses, the purchases will be subject to certain deductions because of returns, rebates, and allowances. In devising a system of accounts, it is, of course, necessary to take this into consideration and to make provision for recording such items in a suitable manner. Where the deductions are few in number and small in amount, they may be posted to the credit of the Purchases account, but where the deductions are numerous and large in amount, it will be better to provide a separate account for Purchases Returns and Allowances.

Purchases returns and allowances may be recorded in the general journal, but it is usually better to provide a special book of original entry in which to record such transactions. The information to be recorded will depend upon the plan of the purchases journal. Where distribution of purchases is on a departmental basis, the distribution of the returns should be on the same basis. Where the distribution of purchases is on a commodity basis, the returns should be distributed similarly.

It will be seen, therefore, that the arrangement of the purchases returns journal should conform to the arrangement of the purchases journal. The only difference is that the entries are reversed as the effect of the returns is just the opposite of the effect of the purchases, and therefore, accounts debited for purchases should be credited for purchases returns.

INVOICE REGISTER

DATE	No.	ACCOUNT (CR.)	F.	AMOUNT OF INVOICE	DISTRIBUTION OF DEPARTMENTAL PURCHASES (DR.)				TOTAL PURCHASES (DR.)
					Dept. A	Dept. B	Dept. C	Dept. D	
1929									
Apr. 1	1	*Short and Hunt*		376 84	176 84	150 —	50 —		
6	2	*City Printing Co.*		720 98	320 —		168 50	241 48	
10	3	*Wages*		580 —					
10	4	*Office Salaries*		450 —					
13	5	*Freight In*		78 25					
15	6	*Standard Appliance Co.*		750 —					

(Left-hand Page)

INVOICE REGISTER

DISTRIBUTION OF DEPARTMENTAL EXPENSES (DR.)				FREIGHT IN (DR.)	ADMIN. EXPENSE (DR.)	SUNDRIES		
Dept. A	Dept. B	Dept. C	Dept. D			Account (Dr.)	F.	Amount
200 —	175 —	125 —	80 —					
				78 25	450 —			
						Office Equipment		750 —

(Right-hand Page)

(Illustration No. 13)

VOUCHER SYSTEM

The Journal Voucher. As a means of internal check all accounting entries should be supported by a proper voucher. A voucher is a business form which serves as evidence of a transaction. It may be an order, invoice, bill of lading, cancelled check, receipt or other business form. Since there may be occasional entries to be made in the journal for which there are no supporting business forms it may be advisable to provide for the use of a journal voucher to represent such transactions. A form of journal voucher is shown in Illustration No. 14.

JOURNAL VOUCHER

VOUCHER No. DATE

ACCOUNT	DEBIT	CREDIT

MEMORANDUM

MADE BY APPROVED ENTERED

(Illustration No. 14)

The Purchase and Expense Voucher. The voucher system of accounting for purchase and expense invoices may involve the use of a voucher, voucher check and voucher register. A voucher may be used as a means of recording in detail, items purchased or expenses incurred and in indicating what distribution should be made in recording the transaction. Usually the record of purchase or expense is recorded on one side and the distribution is indicated on the opposite side of the voucher. The voucher is prepared at the time the invoice is received or when the expense is incurred. The voucher also serves as a means of controlling expenditures because when the

PURCHASE AND EXPENSE VOUCHER

VOUCHER No. DATE OF INV. DATE DUE

CREDITOR

ADDRESS

DESCRIPTION	TERMS	AMOUNT

PREPARED BY AUDITED BY APPROVED BY

(Front of Voucher)
(Illustration No. 15)

voucher system is used it is customary to have all vouchers approved by the proper parties before disbursements are made in payment thereof. The approval of the voucher involves, in the case of purchase invoices, checking with the records of the receiving department to verify quantity, prices, grades, sizes and quality of the goods. It is also necessary to check extensions, amount and terms of payment. When the voucher has been properly audited and approved, payment is duly authorized. A form of purchase and expense voucher is shown in Illustration No. 15.

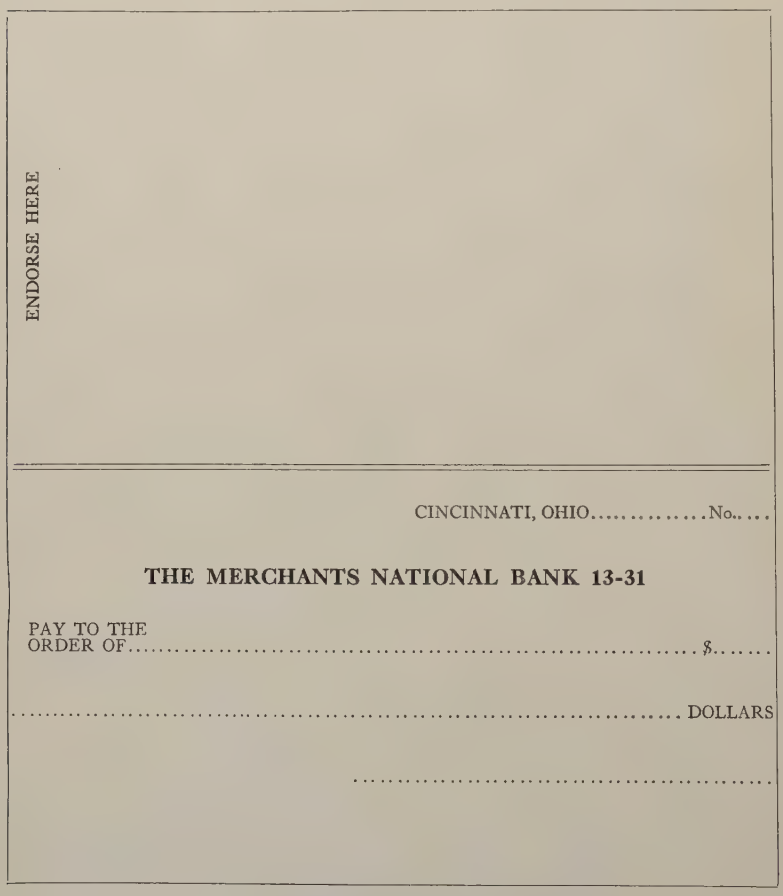
PURCHASE AND EXPENSE VOUCHER

DISTRIBUTION			RECAPITULATION
CHARGE TO			Voucher No.
Acct. No.	Account Title	Amount	
			Issued
			To
			Address
			Amount
			V. P. Reg. LF
			Terms
			Due
			Paid
			V. Chk. No.
			Discount
	TOTAL AMOUNT		

(Back of Voucher)
(Illustration No. 15)

Payment may be made with an ordinary check or with a voucher check. If an ordinary check is used it is customary to file the cancelled check with the voucher and the original invoice. The use of a voucher check provides a more complete receipt because of the detailed record of the purchase or expense which accompanies the cancelled check. The object in using a voucher check is to provide more complete evidence of the payment of all purchase and expense invoices.

Either a single or double form of voucher check may be used but it it more customary to use the double form which is



(Front of voucher before folding)
(Illustration No. 16)

shown in Illustration No. 16. It will be observed that one side constitutes a check with suitable space for endorsements, while the other side constitutes a copy of the original invoice or provides information regarding the expense for which the check is made in payment. When a single form of voucher check is used information regarding the purchase or expense may be recorded on one end of the form while the other end constitutes an ordinary check. A single form of voucher check is frequently used for dividend payments.

The use of the voucher system of accounting for purchases and expenses is not advisable under all conditions but may usually be used to advantage under the following conditions:

VOUCHER CHECK

The H. H. Peck Co.

Cincinnati, Ohio

FAVOR OF

ADDRESS

DATE	DESCRIPTION	AMOUNT

INV. AUDITED BY VOUCHER APPROVED BY

(Back of voucher before folding)

(Illustration No. 16)

(a) When the transactions involving purchases and expenses are sufficiently numerous to justify the use of a special register.

(b) When the nature of the business is such that it is desirable to record expense invoices at the time they are received rather than when payment is made.

(c) When it is the custom of the firm to pay all invoices in full at maturity instead of making partial or installment payments.

The Voucher Register. All vouchers should be recorded in a special register which may serve both as a book of original entry and as a book of final entry. When the voucher register is used it is customary to eliminate the subsidiary ledger with creditors which results in a saving of the time required for posting.

There is no standard form of ruling for a voucher register. The ruling will depend upon the nature of the business and the information desired. The voucher register should be designed so that it will provide the desired analysis of purchases and expenses. Columns should be provided for recording the amount of each voucher and the date of payment. If desired, a column may be provided for listing the unpaid vouchers at the end of the month. However, this is usually unnecessary because the unpaid vouchers will be clearly indicated by the fact that the date of payment has not been recorded. The unpaid vouchers represent the amount of vouchers payable which are the same as accounts payable. It is customary to keep a controlling account for vouchers payable on the same basis as a controlling account for accounts payable when a subsidiary ledger is used. The sum of the vouchers payable should be equal to the balance of the controlling account in the general ledger. A form of voucher register is shown in Illustration No. 17. A comparison of this illustration with Illustration No. 13 will show wherein a voucher register differs from an invoice register.

The Vouchers Payable account is credited for the amount of the footing of the vouchers payable column in the voucher register and is debited for the total payments to creditors which is usually recorded in a special vouchers payable column

VOUCHER REGISTER

DATE	No.	NAME	VOUCHERS PAYABLE (CR.)	PAID		DISTRIBUTION OF DEPARTMENTAL PURCHASES (DR.)				TOTAL PURCHASES (DR.)
				DATE	CHK. No.	Dept. A.	Dept. B	Dept. C	Dept. D	

(Left-hand Page)

VOUCHER REGISTER

DISTRIBUTION OF DEPARTMENTAL EXPENSES (DR.)				TORAL EXPENSE VOUCHERS	FREIGHT IN (DR.)	ADMIN. EXPENSE (DR.)	SUNDRIES		
Dept. A	Dept. B	Dept. C	Dept. D				Account (Dr.)	F.	Amount

(Right-hand Page)

(Illustration No. 17)

in the cash book. The sum of the cash discounts received should also be posted to the debit of the vouchers payable controlling account. This will usually come from the cash book where a special column is provided for discounts received. It should be remembered that there is no difference between vouchers payable and accounts payable except that the term vouchers payable usually includes expense invoices, while the term accounts payable does not ordinarily include expense invoices for the reason that when the voucher method of accounting is not used, expense invoices are recorded at the time of payment. Liabilities existing on account of unpaid expenses at the end of the fiscal period are usually set up as accrued liabilities and are not included with the ordinary trade accounts payable. This makes no particular difference because accrued expenses payable are similar to trade accounts payable and they may either be listed separately or may be combined in one item on the Balance Sheet.

Voucher Accounting Procedure. Just as there is a lack of uniformity in the voucher forms and records used by different firms, there is no standard uniform procedure in voucher accounting, but the customary procedure in accounting for invoices and expenses under the voucher method is as follows:

1. When a purchase invoice is received, it is checked with the records of the receiving department as to quantity and quality of the goods, and is audited in the accounting department for the purpose of verifying extensions and amount. Expense invoices are usually checked by the department in which the expense is incurred. Vouchers should be issued for all purchase and expense invoices which will be paid by check. Vouchers need not be issued for minor expense items which are paid out of a petty cash fund.

2. After the purchase or expense invoice has been properly audited, a voucher is prepared showing what distribution is to be amde of the various items. In other words, the voucher provides the information needed by the one who records the invoice in the voucher register.

3. After the invoice is recorded in the voucher register it may be filed in the unpaid vouchers file in alphabetical order, or it may be filed numerically, according to due date. If the unpaid vouchers are not filed according to due date it may be

advisable to provide a tickler by means of which it can be determined what invoices need be paid each day. Where discounts are involved, this is especially important because if the invoices should run over the maturity date without being paid, the discount will be lost.

4. At or before maturity of the invoices the audited invoices should be approved and presented to the proper disbursing officer for payment. When the voucher check has been signed it should be recorded in the cash book but it will not be necessary to make provision for a distribution of the purchases or expenses at the time of payment because this distribution has been made in the voucher register at the time the invoice was originally recorded.

If it is a strict policy of a firm to take all discounts on purchase invoices, such discounts may be deducted from the amount of the invoice and recorded in a special column of the voucher register. In other words, the net amount of the voucher will be recorded in the voucher payable column and the discount will be recorded in the discount column. However, the gross amount should be recorded in the distribution columns after which the sum of the footings of the vouchers payable and discount columns will be equal to the sum of the totals of the distribution columns. It is usually better to provide a column for recording cash discounts on vouchers payable in the cash book, because it is usually not definitely known when the vouchers are recorded in the voucher register that the financial department will pay all invoices in time to get the benefit of the discount offered. When the check is recorded in the cash book an entry should also be made in the When Paid column of the voucher register. Sometimes a special voucher check register is used. However, no particular advantage is gained because of the fact that it is not necessary to distribute the disbursements.

5. When the cancelled check is received from the bank on which it is drawn it should be filed with the original invoice. Sometimes a file is kept for the paid vouchers and sometimes a separate file is kept for each creditor in order that all invoices and cancelled checks may be filed under the name of the creditor. If the voucher form of check is used it will provide a complete record of the transaction but it will be well to attach the original invoice with it before filing, in order that they may be available

for convenient future reference. If a voucher form of check is not used the original invoice, the voucher and the check should be attached together before filing, for convenient future reference.

When a Trial Balance is prepared, the balance of the Vouchers Payable controlling account should be verified by preparing a list of the unpaid vouchers. The total of the list should, of course, be equal to the balance of the account.

SUMMARY

The purchasing department should be organized so that its function may be performed efficiently and with dispatch. Obviously, the function of the department is to do all the necessary buying to the best advantage from the standpoint of both quality and price. There is just as much opportunity for promoting economy through the use of efficient methods in buying as in any other operation of a business.

To facilitate the operation of a purchasing department, certain forms and records are required. These should be carefully designed with a view to fitting the requirements of the business and of providing the information needed by those charged with the responsibility of operating the department. Where the purchasing department is operated as a distinct department, clerks employed within the department may record all of the operations excepting the purchase invoices which must be handled by the accounting department as the purchases record must tie-up with the general accounting system.

The use of a special record in recording purchases saves time in posting, facilitates efficiency in the accounting organization, provides a means of internal check, and makes possible a distribution of goods on a departmental, commodity, or any other desired basis. It is important that efficient methods be used in recording purchase invoices and that a proper internal check be maintained so as to eliminate errors and discrepancies where the bookkeeper who records the purchase invoices may or may not post the entries to the creditor's account, but in any event, the same person should not be permitted to write checks in payment of the invoices.

In designing any accounting system, it is important that a proper internal check be provided for and that every precaution be used to protect the firm from fraud or embezzlement. The

plan of procedure in an internal-check system should provide that all purchases be made in accordance with a delegated authority who is responsible for all purchase transactions. The system must include some means of tracing the responsibility for every transaction that creates a liability or necessitates an expenditure of cash.

QUESTIONS

3—21. Outline the various activities of a purchasing department.

3—22. Under what conditions would you advise the use of a special journal for recording purchase invoices?

3—23. What should be the principal difference between a purchases journal and a purchases returns journal designed for use in the same business?

3—24. What is the usual distinction between a purchases journal and an invoice register?

3—25. (a) Does it make any difference in designing a purchases record as to whether or not accounts with creditors are kept in a subsidiary ledger with a controlling account in the general ledger?

(b) Would it make any difference in posting?

3—26. Explain a method of recording purchase invoices which will eliminate the need for keeping individual accounts with creditors.

3—27. Name at least one advantage of the voucher system of recording purchases and one disadvantage of the system.

3—28. Explain the difference, if any, between Accounts Payable and Vouchers Payable and state how Vouchers Payable should be listed on the Balance Sheet.

PROBLEMS

3—7. R. M. Howard is conducting a department store. He maintains four distinct departments known as Departments A, B, C, and D and desires to know the amount of the business done in each department. He also wishes to know the results of the operations of each department for he feels he should know whether or not each department is being operated at a profit.

Design a form of purchases journal which will provide for a departmental distribution of merchandise purchased by Mr. Howard and explain the procedure in posting from this journal, assuming that accounts with creditors are kept in a subsidiary ledger with a controlling account in the general ledger.

3—8. Design a purchases returns journal for Mr. Howard which will correlate with the purchases journal and explain the posting procedure.

3—9. Design a purchases journal for The Queen City Hardware Company providing for a distribution of purchases conforming to the chart of accounts appearing in Problem 2—6. The chart of accounts is unusual in that it provides for no purchases accounts. This is due to the fact that a running inventory is kept of all goods handled, the inventory being subdivided on a basis of commodities. The inventory accounts are debited for goods purchased and credited for the cost of goods sold. After designing the purchases journal prepare complete posting instructions.

3—10. Refer to Problem 2—5 and design a voucher register for The E. H. Roberts Company which will eliminate the need for keeping accounts with creditors. In designing the register, plan it so that all invoices may be recorded regardless of whether they represent purchases of merchandise or expense bills. No classification of purchases is required but it is desired to have expenses classified as follows:

Buying Expenses
Selling Expenses
Administrative Expenses
General Expenses

3—11. Record the following transactions completed by The E. H. Roberts Company during the month of January, 1930, using the vouchers payable register which you designed in solving Probelm 3–9.

Jan. 6. 1930. Received invoice for merchandise ordered from The Smithers Hardware Company, $1,150.00, terms 2/10; n/30.

10. Received invoice from The City Motor Company for new motor truck, $1,250.00, n/10.

13. Paid the Municipal Telephone Company $6.00 for service.

15. Received bill from The City Motor Company for repair service on delivery trucks, $35.50.

16. Check No. 117 issued to Smithers Hardware Company, $1,127.00 in settlement of invoice of January 6 less discount.

18. Received bill from The O. K. Printing Company for advertising matter, $12.50.

Paid The City Motor Company for truck purchased on January 10, $1,250.00, check No. 118.

20. Purchased an adding machine from The Burroughs Company for $375.00, terms n/30.

25. Received an invoice from The American Mercantile Company for merchandise purchased amounting to $950.00, terms 2/10; n/30.

28. Received bill from The City Times Company for newspaper advertising, $140.00.

are employed by the City Motor Co. to make a study of the accounting system in use, with the idea of making such changes in the system as seem desirable. Upon investigation, you find that the company is

engaged in the new and used car business and also operates a garage. The company has been using a general journal, cash book and ledger only. You suggest a number of changes in the methods used in recording the operations of the firm and advise the use of the following records:

General Journal
Cash Journal
Petty Cash Book
Voucher Register

In designing the voucher register, you make provision for recording the following data:

Date
Voucher Number
Name
Vouchers Payable (Cr.)
When and How Paid
  Date
  Check Number
Distribution of Purchases
  New Cars (Dr.)
  Accessories and Parts (Dr.)
  Tires and Tubes (Dr.)
  Gasoline and Oil (Dr.)
Distribution of Expenses
  Labor (Dr.)
  Shop (Dr.)
  Selling (Dr.)
  Administrative (Dr.)
Sundries
  Account (Dr.)
  L. F.
  Amount

After designing a voucher register to conform to the above specifications you may record those of the following transactions which properly should be recorded in the voucher register:

Jan. 3, 1929. Issued Voucher No. 100 to the Central Oil Co. for an invoice for gasoline and oil, $185.00.

4. Issued Voucher No. 101 to the Brown Motor Car Co. for invoice for parts, $44.40.

7. Issued Voucher No. 102 to the Superior Motor Car Co. for invoice for parts, $39.25.

9. Issued Voucher No. 103 to the Carroll-Jones Co. for invoice for accessories, $80.00.

10. Check No. 12 was issued in payment of Voucher No. 104 for advertising in the Post, $77.83.

14. Issued Voucher No. 105 to the Superior Motor Car Co. for invoice for parts, $46.70.

16. Check No. 13 was issued in payment of Voucher No. 106 for the weekly pay roll in the shop, to be distributed as follows: Labor, $80.00; Shop Expense, $75.00.

18. Paid the United Service Co., $1.25, out of the petty cash fund for battery service.

20. Checks Nos. 14, 15 and 16 were issued in payment of Vouchers Nos. 107, 108 and 109 respectively as follows:

No. 107, Martin and Stone Co., for invoice for books and stationery to be used in the office, $36.40.

No. 108, The Times, for advertising, $14.57.

No. 109, The Post, for advertising, $17.45.

21. Check No. 17 was issued in payment of Voucher No. 110 covering an invoice for gasoline and oil, purchased from the Paragon Oil Co., $46.63.

21. Check No. 18 was issued in payment of Voucher No. 111 for invoice for parts purchased from the Clifton Motor Co., $15.20.

22. Issued vouchers as follows:

No. 112 to Clark-Stanley Co. for invoice for accessories and parts, $121.10.

No. 113 to Goodyear Tire Co. for invoice for tires and tubes, $230.60.

24. Check No. 19 was issued in payment of Voucher No. 114 for a floor light to be used in sales room, purchased from the A. M. Stearns Co., $50.00.

25. Check No. 20 was issued in payment of a sight draft held by the First National Bank, covering an invoice for new cars shipped C. O. D. from the Scatterbolt Motor Car Co., Detroit, Mich., $4,815.00. (Voucher No. 115). At the same time, Check No. 21 was issued in payment of Voucher No. 116 covering the freight on this shipment per freight bill received from the Big Four Railroad, $280.92.

25. Issued Check No. 22 to the Central Oil Co. in payment of Voucher No. 100 less 2% discount.

25. Received from H. S. Hill, check for $100.00 to apply on the purchase of used car No. 72 sold him on December 15, 1928.

26. Check No. 23 was issued in payment of Voucher No. 117 for advertising material purchased from the City Advertising Co., $45.00.

27. Issued Voucher No. 118 for an invoice for gasoline and oil purchased from the Standard Refining Co., $84.40.

29. Issued Voucher No. 119 for painting Used Car No. 15, per bill rendered by Johnson Painting Co., $55.00.

30. Check No. 24 was issued in payment of Voucher No. 120 for the weekly pay roll in the shop, to be distributed as follows: Labor, $80.00; Shop Expense, $75.00.

After recording these vouchers you may foot and rule the register, and prepare written instructions on the necessary posting. Also prepare a list of the unpaid vouchers as of January 31, 1929.

CHAPTER FOUR

SALES RECORDS AND FORMS

1. **Sales Department Procedure**
2. **Accounting For Sales**
   - (a) **Cash sales**
   - (b) **C. O. D. sales**
   - (c) **Sales on approval**
   - (d) **Sales on account**
   - (e) **Installment sales**
   - (f) **Consignment sales**
   - (g) **Branch sales**
3. **Sales Records**
   - (a) **Sales journal**
   - (b) **Sales returns journal**
   - (c) **C. O. D. sales register**
   - (d) **Installment sales register**
   - (e) **Consignment sales register**

SALES DEPARTMENT PROCEDURE

Goods purchased or produced must be sold before a profit can be realized or earned on the capital invested in the goods. It is a fundamental principle of accounting that profits are realized only through sales. Of course, an income may be obtained through rendering service or through receiving interest on money whether it be loaned, deposited in a bank, invested in interest-paying bonds, or invested in dividend-paying securities. But in any business, the selling function is an essential operation. Services must be sold just the same as commodities, before an income can be obtained therefrom. In a merchandising, manufacturing, mining, or any other business in which commodities or material are produced, the sales department is in reality the income producing department because the goods purchased or produced must be sold before a profit can be realized.

The organization of the sales department is dependent upon many factors, such as, the nature of the business, volume of sales, methods used in selling, advertising policies, etc. The advertising function may be a part of the sales organization or it may be operated as a separate department. In either case, there should be a close correlation of advertising and sales policies because the volume of sales will be influenced by the advertising policies.

Firms engaged in conducting a mercantile business, whether sales are made at retail or wholesale prices, usually maintain their own sales organization. Firms engaged in manufacturing or producing material or commodities, may dispose of their products through another firm which is a selling organization, or it may maintain its own sales organization. Sometimes, a separate sales company is organized and operated as a subsidiary company in which case the subsidiary sales company takes the place of a sales department organized within the manufacturing or producing company. Regardless of the organization through which the goods or products are sold, there are different classes of customers to be reached, and different methods of selling to these customers. The usual methods of selling are as follows:

1. To the consumer directly
   (a) Through the mail
   (b) Through salesmen
   (c) Through retail stores
2. To the consumer indirectly
   (a) Through retail stores
   (b) Through jobbers

If a firm markets its goods or products by selling direct to the consumer through retail stores, it must own or lease the stores. Many of the chain store organizations produce a part or all of the goods they sell. They may also contract to take the entire output of certain producing companies, but in this case, the sales are not made direct to the consumer by the producing company. Regardless of the method used in marketing goods, products or services, the accountant who undertakes to design a system must first familiarize himself with the sales department organization and sales procedure, before he undertakes to design the sales records and forms.

ACCOUNTING FOR SALES

The procedure in accounting for sales will vary depending upon the methods used in selling, the organization of the sales department, sales terms, etc. Sales orders must be interpreted, terms determined, credit approved, sales invoices prepared, goods delivered, and collections made before the sales transaction has been entirely completed. Sales may be made on the following bases:

(a) For cash
(b) C. O. D.
(c) On approval
(d) On account
(e) On installment
(f) On consignment

Cash Sales. Some firms sell only on a cash basis while others sell partly for cash and partly for credit. The trend toward the establishment of chain stores in many lines, is resulting in a considerable increase in cash sales. A "Cash and Carry" policy predominates among the chain grocery stores. The accounting for cash sales is simple. Usually the sales clerk prepares a sales ticket, the original of which goes to the customer while the carbon copy goes to the accounting department. The cash is recorded in a cash register and at the end of each day the total receipts are checked with the total of the sales tickets. The total receipts may then be recorded in a special column of the cash book. If it is desired to distribute the sales by departments or on any other basis, a distribution record may be kept or a recapitulation may be made at the end of each accounting period. In determining upon methods to be used in accounting for cash sales, an internal check should be provided with a view to preventing fraud or embezzlement. There are various schemes which may be used to facilitate an internal check which will insure all sales being recorded and all cash being accounted for.

C. O. D. Sales. C. O. D. sales are a form of cash sales. The goods are not delivered until payment is received by the company or its agent. The agent may be the company's employee, a messenger, the postoffice, the express company or any common carrier. There may be considerable delay in the actual receipt of the remittance but the fact remains that payment is made before the goods are delivered to the customer.

C. O. D. sales should be accounted for in such a way that they will not be confused with ordinary sales. Sometimes they are recorded the same as credit sales. That is, the customer is charged and sales credited. However, if C. O. D. sales are numerous this would involve much unnecessary work. A better plan is to open a C. O. D. account in the general ledger which is a controlling account for a C. O. D. register. All C. O. D. sales will then be recorded in the register in such a way as to show the date of the sale, the name and address of the customer, the amount of the sale, date of delivery, date of payment, and amount of goods returned. The sum of the items charged to C. O. D. customers is posted to the debit of the C. O. D. controlling account, while the sum of the payments and the returns is credited to the controlling account. The balance of the controlling account must always be equal to the goods out on delivery as shown by the C. O. D. register. Posting to the C. O. D. register may be from sales tickets, or from a sales journal in which a C. O. D. Sales column has been provided.

C. O. D. returns are usually debited to the C. O. D. Sales account provided a separate account is kept for C. O. D. Sales, otherwise, the returns are charged direct to the Sales account. C. O. D. returns should not be included with ordinary sales returns because the conditions under which the returns were made are entirely different, due to the fact that goods sold C. O. D. are not in the possession of the customer before payment is received, whereas ordinary sales may be in the possession of the customer for some time before they are returned. For this reason it seems desirable to keep a record of C. O. D. sales returns separate from ordinary sales returns.

Sales on Approval. When sales are made on approval, the customer is given the right to return the goods within a specified time, hence the sale is not completed until it is known whether the customer will retain the goods or return them. Such transactions should not, therefore, be treated the same as ordinary sales. Of course, where such transactions are not numerous they may be handled in the same way as ordinary sales, and when the goods are returned, they may be handled like ordinary sales returns. On the other hand, when such transactions are numerous, they should be accounted for separate

from ordinary sales. The usual plan is to bill the goods to the customer using a memorandum invoice, a copy of which is filed under the due date. A record of such sales is kept separate from ordinary sales. This is a memorandum or auxiliary record. The object of such records is to prevent the recording of sales on approval as ordinary sales until such time as it is definitely known that the goods will be retained by the customer. Usually this is determined when payment is received because the customer must either pay for the goods or return them by a specified date. When payment is received the sales may be treated the same as ordinary cash sales.

Sales on Account. Sales on account are those sales made to customers for credit. If it is the policy of a firm to sell on a credit basis it is important that there be a definite plan for determining who shall be entitled to purchase from the company on a credit basis. Usually a credit department is established wherein all credit and collection records are kept. These records are not necessarily a part of the accounting system. When orders are received from customers who desire to purchase on a credit basis, such orders must be referred to the credit department for approval. After approval of credit, the orders may be billed and recorded in the usual manner.

As many copies of the sales invoice may be prepared as will serve a useful purpose. Usually, the original copy goes to the customer, one of the carbon copies goes to the shipping department and another carbon copy goes to the accounting department where it provides the information needed in recording the sale. When the sale is made through a branch office, one copy of the invoice may go to the home office so that both offices may have a record of sales.

Sales invoices may be recorded in a general journal, but usually sales transactions are so numerous that a separate record should be kept. Sometimes the sales invoice itself is filed in a binder and constitutes the only sales record. Sometimes a book record, known as a sales journal, is kept in which there may or may not be made provision for distribution of sales on some appropriate basis. This distribution can either be made in the sales journal or separately by means of a recapitulation of sales.

Installment Sales. In some lines of business it is customary to sell merchandise on an installment plan. Automobiles, pianos, electric refrigerators, radios, household furniture and many similar items are being marketed extensively on an installment basis. Title usually does not pass to the purchaser until the final installment has been paid. It is customary to charge the full contract price to the customer at time of sale. There are two methods of accounting for the profits on such sales.

1. Installment sales may be treated the same as actual sales and the Sales account may be credited at the time the contract is made, and the amount charged to the customer. In this case, a reserve should be provided equal to the anticipated loss on deferred installments. The amount of the reserve will depend largely upon the character of the merchandise sold. Since the dealer holds title to the merchandise until the final installment is paid, he can recover the merchandise in case of failure to make payments as agreed, and the amount of loss may be practically nothing. The actual loss is the difference between the amount charged to the customer on the contract and the amount collected in installments, plus the amount realized from the resale of the merchandise after having been recovered. The loss should be charged to the reserve account.

2. Instead of recording installment sales as ordinary sales, a separate Installment Sales account may be credited and the accounts with the customers may be kept in an installment accounts receivable ledger for which a special controlling account should be kept in the general ledger. In this way ordinary accounts receivable will be kept separate from installment accounts receivable. A special column should then be provided in the cash book in which payments on installment accounts receivable will be recorded. The individual items will be posted to the credit of the customer's account in the installment accounts receivable ledger and the total of the column will be posted to the credit of the controlling account. At the end of the year, the gross profit to be realized on the total installment sales should be determined and this rate should then be applied to the collections received during the year to find the gross profits realized during the year. The difference between the gross profits to be realized and the gross profits applicable to

the collections from installment sales, should be treated as a deferred profit applicable to installments receivable.

To compute the profit realized during the period, proceed as follows:

(a) Ascertain the total installment sales and the cost of the merchandise sold.

(b) Ascertain the percentage of gross profits to be realized based upon the total installment sales by dividing the gross profit to be realized by the total installment sales.

(c) Apply this rate of gross profit to the collections during the year to ascertain the profits realized.

If a furniture dealer sold an article on January 1 for $500.00 which cost $400.00, payment to be made in twenty equal monthly installments of $25.00 each, the profit realized on the installments collected during the year may be computed by applying the above method as in the following:

Total installment sales price	$500.00
Total profit to be realized	100.00
Percentage of gross profit to be realized based on selling price	20%
Amount of installments collected during year	300.00
20% of $300.00 = $60.00, profit realized on installments collected during year.	

The transactions completed by the furniture dealer may be recorded as follows:

Purchases	$ 400.00	
Cash		$400.00
To record purchase of furniture.		
Installment Accounts Receivable	500.00	
Installment Sales		500.00
To record sale of furniture on installment basis.		
Cash	25.00	
Installment Accounts Receivable		25.00
To record the down payment. (Each monthly installment will be recorded in like manner.)		

If a special column is provided in the sales journal for recording installment sales, the total of this column may be posted to the debit of the Installment Accounts Receivable controlling account at the end of each accounting period, while the individual items appearing in the column may be posted to

the debit of the individual accounts with installment customers kept in a subsidiary installment ledger. If a special column is provided in the cash book, all installment payments received from customers may be entered in that column, the individual items being posted to the credit of the Installment Accounts Receivable in the subsidiary ledger and the total of the column being posted to the credit of the Installment Accounts Receivable controlling account at the end of each accounting period.

Before closing the accounts at the end of the year it is necessary to compute the amount of the earned profit which in this case amounts to 20% of the collections, or $60.00. The closing entries are as follows:

Installment Sales	$500.00	
Purchases		$400.00
Profit and Loss		60.00
Deferred Gross Profits on Installment Sales		40.00
To close the trading accounts.		

The balance of the Installment Accounts Receivable amounting to $200.00 will appear on the Balance Sheet as an asset while the amount of the Deferred Gross Profits on Installment Sales will appear on the liability side of the Balance Sheet as a deferred credit to income. In preparing a Profit and Loss Statement it is well to set up a separate schedule showing the profit earned on installment sales. The amount of the earned profit as shown by this schedule may then be treated as an addition to the gross profits derived from ordinary sales in arriving at the gross trading profit for the year. Following is a model schedule of profits earned on installment sales:

STATEMENT OF PROFITS
EARNED ON INSTALLMENT SALES
Period Ending December 31, 19..

Installment Sales	$500.00
Less Cost of Sales	400.00
Gross Profit to be Realized	$100.00
Less Deferred Gross Profit on Installment Sales	40.00
Earned Gross Profit on Installment Sales	$ 60.00

Consignment Sales. Merchandise may be shipped to an agent to be sold on a commission basis. Title to the goods will remain with the shipper or consignor until the goods are actually sold by the agent or consignee. At the time the goods are shipped to the consignee, an invoice of shipment which is similar to a sales invoice, is rendered, but this is not treated the same as an ordinary sales invoice because the goods have not been sold and no entry for the sale should be made until the consignee reports the sale of the goods.

There is a lack of uniformity in methods of accounting for consignments. Some accountants advocate charging the consignment to the agent's account at cost price, while others advocate that no entry be made for the shipment except in a memorandum record, in which the consignment invoices are recorded. In reality, no entry in the regular books of account is required for consignment shipments, because title to the goods has not been transferred and the accounting elements are not affected. The only effect of the shipment is to transfer the goods from one place to another. Of course, it is advisable to keep some record of the consignments in order that the location of the goods and their value may be determined at any time. The value of the goods out on consignment must be included in the inventory although it is customary to list the inventory of consigned goods separately on the Balance Sheet, using the same method of valuation as is used for inventorying the merchandise in stock.

When the consignee reports the sale it is customary to record the transaction by debiting Cash or the consignee for the amount of the proceeds of the sale, debiting any expenses such as the consignee's commission, transportation charges, etc., which are properly chargeable to the consignor, and crediting Consignment Sales. Usually a separate account is kept for consignment sales so that such sales may be recorded separately from ordinary sales. A special column may be provided in the cash book and sales journal if desired. Of course, consignment sales should be distributed on the same basis as other sales.

When designing records for a firm which sells merchandise received on consignment, it is advisable to provide a special Consignment Sales column in the sales journal or record, so that such sales may be kept separate from ordinary sales. Separate accounts must also be kept so that no difficulties will

be encountered in rendering account sales to the consignor. Usually a separate account is kept with each consignment, the account being charged with the commission and any other expenses which are properly chargeable to the consignor and with the proceeds when remitted to the consignor. The account is credited with the sales and it will balance when remittance is sent to the consignor for the proceeds.

Branch Sales. Many companies maintain branch stores or branch offices through which sales are made to specified territories. This plan enables the company to render better service and facilitates handling sales orders so as to obtain a more prompt delivery to the customer. The branch may be operated as a sales office only, or it may be operated as a complete office serving a definite territory completely and rendering the same service as is rendered by the home office. A complete set of books may be kept in each branch, or the accounting may be centralized in the main office of the company. If each branch keeps a complete record of its operations, the reports made to the head office should provide the information needed by the management in controlling the operations of the branches. Under this plan, the company usually employs a field auditor who inspects the records of the branches periodically.

If the accounting is centralized in the main office, each branch will usually keep only a cash record and such other detailed records as may be necessary to provide the head office with the information needed in recording all the operations of the branches. Under either plan, the records should show the results of operation of each store and should provide the management with all the information needed in maintaining an intelligent control over the operations of each branch.

A controlling account may be kept on the books at the main office containing a summary of the transactions with the branch. The account should be debited with the inventory of property on hand when the books are opened or when the branch is established. In other words, the account should be debited with the total assets of the branch store when it is organized. Subsequently, the Branch account should be debited for:

(a) Merchandise transferred to the branch

(b) Merchandise or other property purchased and shipped direct to the branch

(c) All branch expenses including wages paid employees.

The Branch account should then be credited for remittances to the head office. Usually the branch manager remits only in cash as he collects on the sales. At the close of the fiscal period, the account should be credited for the inventory of merchandise and other property on hand.

Merchandise purchased by, or transferred to the branch from the home office, may be charged to the branch at cost, retail price, or an arbitrary price. If the Branch account is debited with the cost price of the merchandise transferred to it or purchased for it and is credited with the returns, which will usually be in cash, it will be seen that the balance, after having made the necessary adjustment for the closing inventory, will represent the profit or loss resulting from the operations of the branch store. If desired, instead of opening a single controlling account, special accounts may be kept with Branch Inventory, Branch Purchases and Branch Sales. The inventory account would not only contain the merchandise on hand, but would also contain the fixed assets and current assets of the branch; though, if desired, these could be kept in separate accounts, leaving the inventory account for merchandise only.

If the Branch Merchandise account is charged with the beginning inventory at retail price, with merchandise transferred to the store or purchased for the store during the period at retail prices, and is credited with the inventory on hand at the end of the period at retail price, it can readily be seen that the balance of the account will represent the gross trading profit resulting from sales by the branch store.

One advantage of the retail method of branch accounting is that the branch manager will not know the results from operating the branch. Since he does not know the cost of merchandise charged to his store, he cannot ascertain the profits resulting from his sales.

SALES RECORDS

Sales Journal. The sales journal or sales book, as it is sometimes called, is a subdivision of the journal. Like the purchases journal, it may be used to record all of the sales regardless of the terms of sale, or it may be used to record only sales on account. Cash sales are usually recorded in the cash book, hence it would constitute duplication to record them in

the sales journal. However, in some lines of business, it is desired to keep a complete record of sales to each customer regardless of whether he buys on account or for cash and, therefore, each sale is recorded in the sales journal regardless of the terms or time of payment. In a business where the sales are relatively few, and where sales are usually made on account, all sales may be recorded in the sales journal treating them as sales on account. Of course, if the customer has paid cash, an entry will be made in the cash book, giving the customer credit for the payment. The customer is charged for the amount of the sale, this being posted from the sales journal and is credited for the amount of the payment, this being posted from the cash book.

In a business where cash sales are numerous, it would not be practical to attempt to record the individual sales in a sales journal. The usual plan is to obtain the total of the cash sales for each day and to record them in a special column of the cash book. Regardless of the plan followed in recording sales, the sales journal is an original book of entry constituting a record of sales. The sales journal should be planned and devised to fit the existing conditions and to provide the desired information. The purchases and sales journals must be considered together in devising the books of account because the conditions which govern the plan of one book also affect the plan of the other book. In other words, if it is desired to know the results of operations by departments, it will usually be necessary to provide for a departmental distribution of both purchases and sales.

Frequently a carbon copy of the sales invoice is kept in a loose-leaf binder and constitutes the only sales record. In this case, the posting is done directly from the carbon copy of the sales invoice. If the invoices are numbered and filed in consecutive order, there will be no danger of omission and the record may provide all the desired information.

Where it is desired to keep a book record of sales, it is customary to provide special columns with printed headings indicating the nature of the transactions to be recorded in each column. A form of sales journal which was formerly used quite extensively, and which is still used to some extent, provided for recording each sales invoice in detail. Each entry constituted a complete copy of the sales invoice showing the items sold, prices and extensions. It is evident that in a business where a large number of sales are made daily, it would not

SALES JOURNAL

DATE		No.	ACCOUNT (DR.)	F.	AMOUNT	
1929						
Jan.	10	1	Union Mercantile Co.....2/10, n/30		3400	—
	14	2	City Furniture Co.....n/30		400	—
	15	3	Grand Hotel.....2/10, n/20		560	—

(Illustration No. 18)

be practical to attempt to record sales in this manner. A record of the items sold is always available through reference to the carbon copy of the sales invoice or sales ticket. Illustration No. 18 shows a form of sales journal which may provide all the information desired regarding sales.

The entries appearing in Illustration No. 18 are based upon the following transactions completed by the Grand Rapids Furniture Co.:

Jan. 10. 1929. Sold the Union Mercantile Co. 20 dining room suites @ $170.00 each. Terms 2/10; n/30.

14. Sold the City Furniture Co. 10 dining tables @ $40.00 each. Terms n/30.

15. Sold the Grand Hotel 40 chairs @ $14.00 each. Terms 2/10; n/20.

Any desired distribution of sales may be provided for through the use of special columns. The distribution may be based upon the terms of sale, departments, commodities, branch stores, territories, or on any other basis desired. Illustration No. 19 shows a form of sales journal in which distribution of the sales is made by commodities, while Illustration No. 20 shows the same form of sales journal with the distribution made by departments.

The entries appearing in Illustration No. 19 are based upon the following transactions completed by the Standard Milling Co.:

SALES JOURNAL

DATE	No.	ACCOUNT (DR.)	F.	AMOUNT OF INVOICE	DISTRIBUTION OF COMMODITIES				
					Flour	Cornmeal	Buck Wheat Flour	Screenings	Bran and Shorts
1929 Feb. 2	1	R. D. Goodrich.....n/30		12 —	12 —				
5	2	J. C. Hill.....2/10, n/20		11 20		11 20			
8	3	Cash.....	√	12 90	5 —		2 50	40	5 —

(Illustration No. 19)

SALES JOURNAL

DATE	No.	ACCOUNT (DR.)	F.	AMOUNT OF INVOICE	DISTRIBUTIONS OF DEPARTMENTAL SALES (CR.)				
					Dept. A	Dept. B	Dept. C	Dept. D	Dept. E
1929 Mar. 1	1	L. H. Turner.....n/30		384 20	242 15	142 05			
5	2	W. L. Newton.....n/30		42 72			42 72		
8	3	M. J. Martin.....2/10, n/20		91 31				91 31	
11	4	W. H. Brooks.....2/10, n/30		16 20					16 20

(Illustration No. 20)

Feb. 2. 1929. Sold 200 lbs. flour @ 6¢ per lb. to R. D. Goodrich on account. Terms n/30.

5. Sold 280 lbs. of cornmeal @ 4¢ per lb. to J. C. Hill on account. Terms 2/10; n/20.

8. Cash sales: 100 lbs. of flour @ 5¢; 25 lbs. of buck wheat flour @ 10¢; 10 lbs. of screenings @ 4¢ and 100 lbs. of bran @ 5¢.

The entries appearing in Illustration No. 20 are based upon the following sales completed by James Biddle, proprietor of a retail mercantile business:

Mar. 1. 1929. Sold merchandise to L. H. Turner on account, $384.20. Distribution Dept. A $242.15, Dept. B $142.05. Terms n/30.

5. Sold merchandise to W. L. Newton, Dept. C, $42.72. Terms n/30.

8. Sold M. J. Martin on account merchandise, Dept. D, $91.31. Terms 2/10; n/20.

11. Sold W. H. Brooks on account, merchandise amounting to $16.20, Dept. E. Terms 2/10; n/30.

If it is not desired to keep a book record of sales to be used as a posting medium, the posting may be done from the sales invoice or ticket. In this case, it is customary to prepare an abstract or recapitulation of sales using a loose-leaf form for that purpose. The recapitulation form is ruled to provide for the desired distribution. The distribution may be made on a basis of commodities, salesmen, sales territories, branches or on any other basis which will provide the desired information. Sales analysis may be made by the accounting department or by an employee in the sales department. Since the principal purpose of the analysis is to provide the sales department with the desired information it is usually better to let the sales department control this function. A carbon copy of the sales tickets and sales invoices will provide the necessary information for compiling the desired statistics.

A proper analysis of sales will be a distinct aid in sales administration. If monthly, quarterly, semi-annual and annual reports showing an analysis of sales by commodities, states, territories, or any other desired basis are made available promptly, following the close of each period, such reports will do much to stimulate the interest of the salesmen and sales executives. Such reports will also serve as a basis for measuring the results of sales effort and the ability of the salesmen. Of course, such reports should be made comparative in form. If

the comparison is made to cover a period of five years or more it will indicate the sales trend. Frequent analysis of sales should be made as a guide to the establishment of intelligent sales and advertising policies.

In a particular business, a plan was developed whereby sales were analyzed on a basis of commodities and by salesmen's territories. Reports were prepared monthly showing comparison of the current month with preceding corresponding periods. Copies of these reports were furnished to all salesmen as well as the heads of departments. These reports showed currently the sales trend and served as a guide to advertising and sales policies. If the reports indicated that the sales in a given territory were falling off, the cause could be ascertained and remedial measures adopted. If it was found that the salesman was at fault, steps could be taken to place a more capable salesman in the territory without delay.

The value of statistical or accounting reports is always greater when such reports are available currently. It is not satisfactory to ascertain what has happened several months following the close of a period. If accounting is to be a real aid to management, it must be the means of providing current information concerning the results of operations.

Sales Returns Journal. As in the case of purchases, there are usually some deductions to be made from sales. These deductions are due to returns, allowances and rebates. The deductions may be debited directly to the Sales account, but usually it will be better to keep a separate account for the returns and allowances, and in some cases where the allowances are quite numerous, it may be advisable to keep accounts with Sales Returns and Sales Allowances separately.

Sales returns and allowances may be recorded in the general journal, but where they are numerous, this will not be advisable. A better plan is to provide a separate book of original entry in which all transactions of this type may be recorded. This book will serve as a posting medium. Special columns should be provided to record the desired information. The plan of the book will be similar to the sales journal and distribution should be on a similar basis. If the sales journal provides for a distribution of sales by departments, the sales returns journal should be ruled to provide for a distribution of the returns on

the same basis, otherwise it will not be possible to determine accurately the results of operations by departments. This theory is applicable regardless of the basis of distribution. The sales returns journal shown in Illustration No. 21 is designed to be used with the sales journal shown in Illustration No. 20.

C. O. D. Sales Register. If the C. O. D. sales transactions are numerous, it will be advisable to design a C. O. D. sales register which will serve as a memorandum record of such sales until the goods are delivered, collections made and the money received for the goods. A form of C. O. D. sales register is shown in Illustration No. 22. The information to be recorded in this register is obtained from the C. O. D. sales tickets or C. O. D. sales invoices. If desired, a controlling account may be kept in the general ledger. This account would be charged for the C. O. D. sales, the total amount of C. O. D. sales being posted daily, weekly or monthly as desired. The account will be credited when remittances are received and will balance when remittances have been received for all C. O. D. sales.

In designing a C. O. D. sales register for a retail establishment it may be advisable to provide a column for signatures of drivers. This is a means for making each driver responsible for packages turned over to him for delivery. When he turns in the remittances or returns the goods he is given credit so that the register at all times shows the exact amount of merchandise charged to each driver. Usually it will be more satisfactory to keep a separate record of city deliveries regardless of the basis on which sales are made to customers.

Installment Sales Register. Installment sales may be recorded in a register similar to the one shown in Illustration No. 23. This register was designed for a firm which sells on a quarterly installment basis. The sales invoice was designed to show the amount of the sale, the amount of the down payment and the installment terms. Thus, the invoice provided the information needed in recording the transactions in the installment sales register. An Installment Accounts Receivable controlling account was kept in the general ledger. It was debited for the total amount of the installment sales, the total being posted at the end of each week. The down payments and installment remittances were recorded in the cash book where a special column was provided for Installment Accounts Receivable. The

SALES RETURNS JOURNAL

DATE	No.	ACCOUNT (CR.)	F.	AMOUNT	DEPARTMENTAL DISTRIBUTION				
					Dept. A	Dept. B	Dept. C	Dept. D	Dept. E

(Illustration No. 21)

C. O. D. SALES REGISTER

DATE	No.	CUSTOMER	ADDRESS	AMOUNT OF SALE	C. O. D. CHARGES	TOTAL AMOUNT DUE	WHEN PAID	WHEN RET'D	REMARKS
1920 Jan. 2	1	*James Cox*	*Cleveland, O.*	26 50	1 35	27 85	1-4-29		
3	2	*Ralph Burns*	*Philadelphia, Pa.*	78 —	7 17	85 17			
7	3	*M. A. Clark*	*City*	14 21	94	15 15		1-10-29	*Refused*
10	4	*D. F. Birch*	*Berea, Ky.*	9 68	82	10 50	1-15-29		

(Illustration No. 22)

INSTALLMENT SALES REGISTER

DATE	No.	ACCOUNT (DR.)	F.	AMOUNT OF INVOICE	AMOUNT OF DOWN PAYMENT	1ST INSTALLMENT		2D INSTALLMENT		3D INSTALLMENT		4TH INSTALLMENT		BALANCE
						Date	Amount	Date	Amount	Date	Amount	Date	Amount	
1929 Jan. 3	1	*J. A. Kenny*.....		250—	50—	4/3/29	50—	7/3/29	50—	10/3/29	50—			
15	2	*D. E. Dow*.....		50—	10—	4/15/29	10—	7/15/29	10—					
20	3	*A. K. Paul*.....		155—	35—	4/20/29	30—	7/20/29	30—					

(Illustration No. 23)

CONSIGNMENT SALES REGISTER

DATE	No.	CONSIGNEE	ADDRESS	AMOUNT	EXPENSES			ACCOUNT SALES RECEIVED	PROCEEDS
					Trans. Chgs.	Commission	Misc.		
1929 Jan. 1	1	*H. M. Childs*.....	*Pittsburgh, Pa*.....	525—	30—	60—		525—	435—
10	2	*C. M. Cass*.....	*New York City*.....	310—	26 40	54—		310—	220 60
12	3	*D. O. Spencer*.....	*Chicago, Ill*.....	632—	74—	115—	4—	632—	439—

(Illustration No. 24)

posting to the credit of the Installment Accounts Receivable controlling account was from this special column of the cash book, rather than from the installment sales register. However, then installment sales register was ruled so as to provide a record of the down payments and each installment payment. It will be noted that a column was provided for recording the balance due on each account at the end of the year. A tickler was used to determine payments due each day. The customer was provided with a pass book bearing the same number as the number given the account in the installment sales register, and the customer was required to present the pass book when each payment was made and the payment was recorded therein, which provided the customer with a receipt as well as a complete record of the account.

Consignment Sales Register. Consignment invoices may be recorded in a register similar to the one shown in Illustration No. 24. The consignment invoices and the account sales report provide the information needed in recording the transactions in the consignment sales register. The invoice is recorded at the time shipment is made. No further entry need be made until the account sales report is received from the consignee at which time the record is completed and the proceeds recorded. A special column may be provided in the cash book for recording the proceeds of the consignment sales. The consignment sales register may be treated as a memorandum record only, all posting being made from the cash book, because consignment sales transactions are really cash transactions due to the fact that the sale is not recorded on the books of the consignor until the goods have actually been sold and the remittance received. Of course, if the agreement between the consignor and the consignee does not require the consignee to send remittance for the proceeds of each sale at the time of rendering the account sales report, it will be necessary to treat the consignment sales as account sales, charging the consignee for the proceeds, but usually the consignee is required to send remittance for the proceeds with the account sales report.

SUMMARY

The function of a sales department is to promote the sale of goods purchased or produced. Obviously, all of the operations of the department should be recorded. Some of the operations

may be recorded in records kept within the sales department while others should be recorded in records kept by the accounting department. Properly designed forms and records should be used. An internal check should be provided for. This will involve a routine by means of which, all of the operations of the department are properly recorded. Provision should be made for tracing the disposal of goods. There should be a definite routine for handling sales orders, back orders, returns, and allowances. Responsibility for approval of credit, filling orders, and making collections should be definitely established. A double check should be provided on the billing operations.

The successful operation of the sales department involves the securing of a maximum volume of orders and efficient handling of the orders. To accomplish these aims, it is necessary to maintain a stock of goods sufficient to fill all orders received promptly and to provide a routine plan of operations within the department which will prevent mistakes in billing the goods or in preparing the goods for shipment.

QUESTIONS

4—29. Outline the various activities of a sales department.

4—30. What factors determine the proper method to be used in accounting for sales?

4—31. In what way would the accounting for sales of a mail order house vary from the accounting for sales of a chain store organization?

4—32. (a) On what bases may sales be distributed?

(b) Explain the advantages to be derived from a proper distribution of sales.

4—33. What is meant by "Will Call" sales and "Approval" sales?

4—34. In preparing statements at the end of a fiscal period, how would you treat C. O. D. sales for which remittances have not yet been received?

4—35. How should sales on approval be treated in preparing statements at the end of a fiscal period.

4—36. Does it make any difference in designing a sales journal as to whether or not accounts with customers are kept in a subsidiary ledger with a controlling account in the general ledger?

4—37. In what way does the accounting for installment sales differ from the accounting for ordinary account sales?

4—38. Outline a method for handling and recording sales returns.

PROBLEMS

4—13. Refer to Problem 3—7 and design a form of sales journal which will provide for a departmental distribution of sales made by Mr. Howard.

4—14. Design a sales returns journal for Mr. Howard which will correlate with the sales journal designed in your solution of the preceding problem.

4—15. Explain how you would record cash sales in the business conducted by Mr. Howard. It may be assumed that at least 50% of the sales in each department are for cash and that each clerk prepares a sales ticket showing the date, description of articles sold and the amount of the sale. Of course, the department in which the sale is made and the number of the clerk making the sale is also indicated.

4—16. Rule a form to be used in preparing an abstract of cash sales on a monthly basis for Mr. Howard. While the amount of the cash sales for each day will be entered in the cash book, no attempt is made to distribute the cash sales by departments, hence it is necessary to make up an abstract of sales showing departmental distribution at the end of the month in order to have the information needed in preparing a report for Mr. Howard which will show the results of operations for each department during the month.

4—17. Refer to Problem 2—5 and design a C. O. D. Sales Register for The E. H. Roberts Company similar to the one shown in Illustration No. 22, page 104. After designing the register, record therein the following transactions:

Feb. 4. 1929. Sold merchandise amounting to $14.60 to A. G. Hagist, Denver, Colo. Sent C. O. D., charges amounting to $1.58.

7. Sold merchandise amounting to $8.68 to E. O. Sheets, Buffalo, N. Y. Sent C. O. D., charges amounting to 87¢.

10. Sold C. O. D. merchandise amounting to $44.55 to D. E. Goodwin, Lancaster, Ohio, charges amounting to $3.74.

12. Sold merchandise amounting to $12.16 to D. J. Newland, Chicago, Illinois. Sent C. O. D., charges amounting to $1.11.

13. Received remittance amounting to $8.68 from E. O. Sheets, Buffalo, N. Y., on C. O. D. sale of February 7.

15. Sold merchandise amounting to $38.50 to W. M. Jacobs, Trenton, N. J. Sent C. O. D., charges amounting to $3.28.

16. Received remittance on C. O. D. sale from D. E. Goodwin, Lancaster, Ohio, amounting to $44.55.

17. Sold merchandise amounting to $22.35 to M. E. Davis, Boise, Idaho. Sent C. O. D., charges amounting to $1.60.

20. Merchandise sent C. O. D. to D. J. Newland, Chicago, Illinois, was returned marked "Refused."

4—18. The Good Music Company sells radiolas on an installment basis. On January 1, 1929, the company purchases a radiola from The Radio Corporation for $125.00 on account. January 10 it sells the radiola to A. J.

Eby for $375.00 to be paid for as follows: $25.00 down and the balance in quarterly installments of $50.00 each, bill of sale to be given on date of final payment. The installments due in 1929 were paid when due. The proprietor of The Good Music Company wishes to have the installment sales recorded so that the accounts will show profits earned on a basis of collections actually received during each year.

(a) Journalize and post the transactions incident to the purchase and sale of the radiola on the books of The Good Music Company.

(b) Compute the earned profits applicable to the year 1929.

(c) Draft the closing entries required at the end of the year.

CHAPTER FIVE

CASH RECORDS AND FORMS

1. **The Financial Program**

2. **Accounting for Cash**
   - **(a) The Cash account**
   - **(b) Embezzlement**
   - **(c) Safeguarding cash**

3. **Cash Records**
   - **(a) The cash book**
   - **(b) The cash receipts journal**
   - **(c) The cash disbursements journal**
   - **(d) The cash journal**
   - **(e) The petty cash disbursements record**

THE FINANCIAL PROGRAM

One of the most important functions of a business is to provide for the safe custody of cash receipts and for an adequate control of cash disbursements. The funds required for operating a business may be obtained through investment, loans, or conversion of the profits into cash. When a business is organized, a certain amount of cash and other property are usually invested. The cash may be used to purchase assets and to pay expenses. In due time, the cash invested in stock-in-trade or merchandise will result in cash being received from customers. If the business is operated at a profit, the cash received from customers will ultimately exceed the cash invested in the merchandise plus the cash disbursed on account of the operating expenses. Since cash is being constantly and continuously received and disbursed, provision must be made in designing the accounting system for a proper accounting control of the receipts and disbursments.

In designing the records and forms, some consideration needs to be given to the financial program. Many of the smaller business firms do not have a definite financial program, in which case they are obviously working at a disadvantage. The larger firms maintain a financial department with definite financial policies. The head of this department may be the controller, treasurer, or auditor of the company. The credit, collection, and accounting departments may be subsidiary to the financial department and may be controlled by the head of this department. Mr. J. O. McKinsey in discussing the financial budget says:

"The ideal financial program would be one which provided for the receipt each day of the same amount of cash which must be disbursed on that day. It is impossible to make plans which are sufficiently exact to make possible such a schedule of receipts and disbursements, and so it is necessary to maintain a "cash balance" which will insure against a discrepancy between the cash receipts and the cash disbursements. The cash balance in financial operations serves a function similar to that performed by the merchandise inventory in merchandise operations."*

ACCOUNTING FOR CASH

More care is usually taken in accounting for cash than any other asset, though it is difficult to understand why a business man should safeguard his cash with any greater degree of care than other assets representing money's worth or cash value. If as great precautions were used in the keeping of accounts with merchandise as are often used with cash, there would be much less danger of fraud, theft, or embezzlement. The average business man is satisfied to take an inventory of merchandise once a year, but will insist upon his cash being counted daily. No doubt, the reason for this is because fraud is more often connected with the handling of cash than with the handling of merchandise, although it is possible that if the facts were known, it would be found that business men suffer a greater annual loss through thefts of merchandise by employees, than through embezzlement of cash.

The Cash Account. Many bookkeepers do not keep a Cash account in the general ledger but simply refer to the cash book for the cash balance when preparing the Trial Balance

*Budgetary Control, P. 296.

and statements. However, it is better to keep a summary Cash account in the general ledger even though it may show only the total receipts and total payments for each accounting period. Since the accounts kept in the general ledger should balance independently of all other records, it is important that a summary Cash account be maintained. It will represent a sort of controlling account for the cash book or whatever cash records are kept.

Embezzlement. A knowledge of some of the more common methods used in dishonestly abstracting the cash funds of a company is an aid to the accountant in devising safeguarding measures. The following are perhaps the most frequently used methods of embezzlement:

1. A part of the cash received is withheld, no entry being made on the books of account, neither recording the receipt of cash nor the credit to the customer's account.

2. A part of the cash received is withheld and instead of recording it as a cash receipt, the customer is given credit for an allowance on returned goods.

3. After the cash received has been properly recorded in the cash book and posted to the customer's account, the footings of the cash book may be altered so that they will show a smaller amount of receipts or a larger amount of payments, and the cash equivalent to the amount of the discrepancy in the footings withheld.

4. A part of the cash received will be withheld, making no entry in the cash book. The customer's account may be credited directly and at the same time some other account is debited for an equivalent amount in order to keep the ledger in balance.

5. A fictitious expense invoice may be recorded charging some expense account and crediting cash. An equivalent amount of cash is then abstracted.

6. A sales invoice may not be recorded at all, a note being made of the transaction so that a statement will be rendered to the customer at the proper time. When the cash is received from the customer, it is withheld, no entry being made.

7. "Over-lapping" may be resorted to. Cash receipts are withheld and subsequently other receipts are substituted for the original receipt. In this way, a fixed amount might be withheld over a long period of time, the over-lapping process being kept up continuously so as to cover the original discrepancies.

Safeguarding Cash. If the system designed provides for a proper method of internal check and certain simple methods are used in handling cash, opportunities for committing fraud or embezzling funds will be largely eliminated. The bookkeeper who has charge of the customers' accounts should never be permitted to act as cashier. If all posting to customers' accounts is handled by one person and cash receipts and disbursements are handled by a different person, collusion would be necessary before either party could withhold funds and pad or alter the accounts to cover up the discrepancy.

The entire cash receipts should be deposited in a bank, deposits being made frequently—daily if convenient. Under this plan the cash receipts will be equal to the deposits for the month or other period, assuming of course, that all cash received is deposited on the last day of the month or period. Arrangements should be made with the bank whereby all checks payable to the company will be accepted only for deposit. Under no circumstances should the bank pay out cash on such checks to employees of the company. All disbursements should be made by check excepting petty disbursements which may be made out of a petty cash fund. A limit should be placed upon the amount of petty disbursements and the petty cashier should be required to account for all disbursements of whatever nature by presenting a properly signed voucher or receipt.

The check book should be kept in the custody of the one who signs the checks, which will usually be the cashier. It is well to provide a plan whereby all checks received will be listed by one who does not have access to the account of customers and who has nothing to do with the handling of deposits or the writing of checks. The list should be made in duplicate, one copy going to the customers' ledger bookkeeper and the other copy going to an officer of the company which may be used for the purpose of comparison of receipts with deposits. Customers should be billed regularly. This is usually done on the first of each month. Any complaints from customers regarding bills should be handled by an official of the company instead of by any employee of the accounting department.

This does not necessarily exhaust the measures which may be used in safeguarding cash. It is merely intended to be suggestive. Obviously, the cash on hand should be counted and the cash balance proved frequently so that any discrepancy

will be detected and the necessary investigation made to ascertain and eliminate the discrepancy. Never let confidence in employees take the place of good judgment in devising means of safeguarding cash. The honest and conscientious employee will welcome such measures for they are just as much of a protection to him as to the company.

CASH RECORDS

Several forms of cash records will be found in use. They have been devised for all sorts of reasons and to fit varying conditions. They run the scale from a cash book with only the general columns on each side to a complicated form of cash journal containing all the transactions recorded either individually or in summary. The cash book may be a bound book or a loose-leaf record. It may be subdivided so that separate records are kept for receipts and payments. Such a division of the cash book facilitates the recording process and it enables two persons to be employed, one handling receipts and the other recording disbursements. Sometimes a separate record is kept for recording cash receipts from trade customers only, and another for recording payments to trade creditors only. Obviously, it would be impractical to attempt to illustrate and describe all of the possible variations of cash records. However, an attempt will be made to describe the general plan of the most frequently used types of cash records.

Cash Book. If all cash transactions were recorded in an ordinary journal it would be necessary to post each entry to the Cash account in the general ledger. Since cash transactions are ordinarily more numerous than any other type of transactions it is obvious that it would be impractical to attempt to record such transactions in the journal and to post the items individually to the Cash account. To save time in posting and to provide for a proper classification of data, all transactions involving the receipt or payment of cash are usually recorded in a special journal known as a cash book or cash journal. Where the receipts and disbursements are recorded in the same book, it is customary to record the receipts on the left-hand page and the payments on the right-hand page. When separate records are kept, one is usually termed a cash receipts journal and the other a cash disbursements journal, but when they are combined in one record, it is usually known as a cash book or cash journal.

In reality, the cash book constitutes two complete journals each of which is a subdivision of the general journal. This is more evident when separate records are kept of cash receipts and disbursements. Assuming that receipts and disbursements are to be recorded in the same record, the left-hand page being used for recording receipts and the right-hand page being used for recording disbursements, it will be seen that all entries on the left-hand page represent debits to the Cash account and credits to the account to which the cash applies. Entries on the right-hand page represent credits to the Cash account and debits to the account to which the cash applies.

In devising a cash book, it is necessary to take into consideration the existing conditions and the general plan of the accounting system, as well as the information desired in regard to the business operations. The most simple form of cash book is one in which receipts are recorded on one side and payments on the other side without distribution or analysis. Illustration No. 25 shows a cash book of this form. One line is used to record each cash receipt or payment. The entries appearing in this illustration are based upon the following transactions:

Jan. 2. 1929. William Olsen invests $7,500.00 in the hardware business.
4. Purchased equipment for store for $600.00 cash.
5. Gave check in payment of delivery truck, $450.00.
8. Purchased merchandise from the Johnson Supply Co. for $2,100.00 cash.
9. Sold William Gay merchandise for $200.00 cash.
20. Received $140.00 from William Gay to apply on account.
31. Cash sales, $24.00.

Assuming that the balance on hand at the beginning of the period is entered on the receipts side, the difference between the total receipts and disbursements represents the cash book balance. The bookkeeper checks this balance by making a count of the cash on hand and adding it to the amount of the cash in the bank. In other words, the sum of the cash on hand and in the bank should be equal to the cash book balance provided adjustment has been made for any checks outstanding.

In proving the cash at the close of business for the day, it is not uncommon to find that there is a discrepancy in the cash receipts as compared with the records. This discrepancy is usually the result of mistakes in making change. Should the discrepancy be proportionately large, an effort should be made to locate the source. When the amount of the discrepancy is

CASH RECEIPTS

DATE	F.	ACCOUNT (CR.)	AMOUNT	TOTAL (DR.)
1929 Jan. 2		*William Olsen, Capital*	7500 —	
9		*Sales*	200 —	
20		*William Gay*	140 —	
31		*Sales*	24 —	

(Left-hand Page)

CASH PAYMENTS

DATE	F.	ACCOUNT (DR.)	AMOUNT	TOTAL (CR.)
1929 Jan. 4		*Store Equipment*	600 —	
5		*Delivery Equipment*	450 —	
8		*Purchases*	2100 —	

(Right-hand Page)

Cash Book (Illustration No. 23)

proportionately small, it is customary to make an adjustment through a Cash Over and Short account. If, in counting the cash, it is found that the amount on hand is more than the amount recorded and the discrepancy cannot be located and corrected, an adjustment may be made by debiting Cash and crediting Cash Over and Short. When the amount on hand is less than the amount recorded, an adjustment may be made by debiting Cash Over and Short and crediting Cash. It will be seen from this that through the use of a Cash Over and Short account, it is possible to adjust minor discrepancies without inconvenience and without unnecessary delay in attempting to locate errors. The Cash Over and Short account is a Profit and Loss account. A debit balance in this account at the end of the

period indicates a loss due to carelessness on the part of an employee. A credit balance indicates a profit which usually results from "short-changing." If it is not desired to close this account into Profit and Loss at the end of the period, the balance may be treated as a deferred charge to operations or a deferred credit to income, depending upon whether it is a debit or credit balance. This policy is frequently followed on the theory that the account may adjust itself and balance at some time in the future.

Cash receipts and payments may be analyzed through the use of special columns in the cash book. The analysis or distribution will depend upon the information desired and the nature and frequency of the transactions. If subsidiary ledgers are kept for customers and creditors accounts, it is customary to provide special columns in the cash book in which to record receipts from customers and payments to creditors. It is also customary to provide special columns in which to record cash sales. Where discounts are received on purchases and allowed on sales, and where there are a number of transactions involving discounts, it is customary to provide special columns for purchases discounts and sales discounts. Columns may be provided to keep a record of the bank deposits and checks.

Illustration No. 26 shows a cash book devised to provide special columns on the left-hand page for recording receipts from customers, cash sales, and sales discounts, and special columns on the right-hand page for recording payments to creditors and purchases discounts. Special columns are also provided for keeping a record of bank deposits and checks. The entries appearing in Illustration No. 26 are based upon the following transactions taken from the books of The McAlpin Company:

Sept. 6. 1929. Sent a check for $490.00 to the Davis Metal Works Company in payment of bill amounting to $500.00, taking a cash discount of 2%.

7. Received a check from Frank Adams in payment of a note receivable for $2,000.00 and interest $10.00.

13. Received a check for $4,306.50 from the Murray Supply Company to pay for invoice of September 3 less a cash discount of 1%.

17. Paid $50.00 in cash on account of defective merchandise returned which had been sold for cash on September 12.

25. Made a $200.00 cash purchase of merchandise.

27. Received $4,950.00 from the First National Bank by discounting company's 60-day, 6% note for $5,000.00.

CASH RECEIPTS

DATE		F.	ACCOUNTS	GENERAL LEDGER (CR.)	ACCOUNTS RECEIVABLE (CR.)	SALES DISCOUNT (DR.)	CASH SALES (CR.)	NET RECEIPTS (DR.)	BANK DEPOSITS Date	BANK DEPOSITS Amount
1929 Sept.	7		*Notes Receivable*	2000—				2000—		
	7		*Interest*	10—				10—		
	13		*Murray Supply Co.*		4350—	43 50		4306 50	13	6316 50
	27		*Notes Payable*	5000—				4950—	27	2950—

(Left-hand Page)

CASH PAYMENTS

DATE		F.	ACCOUNTS	GENERAL LEDGER (DR).	ACCOUNTS PAYABLE (DR.)	PURCHASES DISCOUNT (CR.)	NET PAYMENTS (CR.)	BANK CHECKS No.	BANK CHECKS Amount
1929 Sept.	6		*Davis Metal Works*		500—	10—	490—	901	490—
	17		*Sales Returns*	50—			50—	902	50—
	25		*Purchases*	200—			200—	903	200—
	27		*Interest Cost*	50—					

(Right-hand Page)

Cash Book (Illustration No. 26)

In the event it is the custom of the firm to deposit all receipts and pay all bills by check, it will not be necessary to provide special columns for bank deposits and checks for the reason that the Net Receipts and Net Payments columns provide the desired information. A special column might be provided here to record cash purchases if it were the custom of the firm to purchase for cash rather than on account. Usually purchases are made on account, in which case it is not necessary to provide a special column for cash purchases. Even where the terms of purchase are cash or C. O. D., it is customary to treat them as credit purchases recording the invoices in the purchases journal and the payments in the cash book.

This form of cash book involves a theory with reference to the handling of discounts that is different from the general theory of the cash book. It will be noted that the total of the Sales Discount column is posted to the debit of the Sales Discount account, while the total of all other special columns on the receipts side of the cash book is posted to the credit of the proper accounts. Sometimes the Sales Discount column is placed on the right-hand page of the cash book on the theory that all entries on the left-hand page should constitute credit entries and all entries on the right-hand page should constitute debit entries. In other words, sales discounts are treated as payments while the customer receives credit on the receipts side for the full amount rather than the net amount of his remittance.

It is misleading to treat sales discounts as cash payments and purchases discounts as cash receipts. It is more practical and efficient to provide a special column on the left-hand page for sales discounts and a column on the right-hand page for purchases discounts. Contra entries in books of account are to be avoided whenever possible. This arrangement of the discounts columns eliminates contra entries to record purchases and sales discounts. Where transactions involving purchases and sales discounts are infrequent, they may be journalized—that is, recorded in the general journal. In this case, it is not necessary to provide special columns in the cash book for discounts. The remittance is recorded in the cash book and the discount is recorded in the general journal.

Where a business is departmentalized, it may be desirable to distribute cash sales by departments. Expenses may also be

distributed by departments or on any other desired basis. When such a detailed classification of data is desired, it is best to separate the cash records, maintinaing separate records for receipts and disbursements.

Cash Receipts Journal. In Illustration No. 27, provision is made for distributing cash sales by departments in a form of cash receipts journal. The entries appearing in Illustration No. 27 are based upon the following transactions completed by Hunt and Williams:

Jan. 2. 1929. Received a check from H. D. Murphy for $202.69 in full of account.

7. Cash sales, Dept. A, $100.00; Dept. B, $75.00; Dept. C, $40.00.

11. Received a check from A. B. White for $176.49 in full of account.

This means of classifying cash sales by departments in the cash receipts journal is followed when no other means is provided for such a classification of cash sales. If provision is made for recording cash sales in the sales journal and a departmental classification is provided therein, obviously it would not be necessary to provide for a departmental classification of cash sales in the cash receipts journal.

Cash Disbursements Journal. In Illustration No. 28, provision is made for distributing expenses on a functional basis. The entries appearing in Illustration No. 28 are based upon the following transactions also completed by Hunt and Williams:

Jan. 4. 1929. Paid J. A. Hackett $357.75 on account.

6. Paid the First National Bank $2,000.00 in settlement of note due today.

15. Paid office salaries, $160.00; salesmen's salaries, $250.00; sundry office supplies, $21.00; attorney's fees, $20.00, and advertising bill, $50.00.

It would not, of course, be necessary to distribute expenses in the cash disbursements journal, if all expense invoices were recorded in the invoice register and properly distributed there. The theory is to make such distribution in the cash records of receipts and disbursements as is necessary to provide the desired information. If a proper distribution is provided in other records, it need not be done in the cash records. At least, there should not be any duplication in the recording process.

The distribution of the expenses can be on any desired basis. Too detailed a distribution in the cash book should not

CASH RECEIPTS JOURNAL

DATE	F.	ACCOUNT	GENERAL LEDGER (CR.)	CUSTOMERS' LEDGER (CR.)	CASH SALES (CR.)			NET RECEIPTS
					Dept. A	Dept. B	Dept. C	
1929								
Jan. 2		*H. D. Murphy*		202 69				202 69
7		*Sales*			100 —	75 —	40 —	215 —
11		*A. B. White*		176 49				176 49

(Illustration No. 27)

CASH DISBURSEMENTS JOURNAL

DATE	F.	ACCOUNT	GENERAL LEDGER (DR.)	CREDITORS' LEDGER (DR.)	DISTRIBUTION OF EXPENSES			NET PAYMENTS
					Buying Expense	Selling Expense	Admin. Expense	
1929								
Jan. 4		*H. A. Hackett*		357 75				357 75
6		*Notes Payable*	2000 —					2000 —
15		*Salaries*	410 —			250 —	160 —	410 —
15		*Office Supplies*	21 —				21 —	21 —
15		*Attorney's Fees*	20 —				20 —	20 —
15		*Advertising*	50 —			50 —		50 —

(Illustration No. 28)

be attempted but a partial distribution will often save much time in posting. The fact should be emphasized that it is unwise to provide too many special columns in any of the books of original entry. There is a limit to which classification should be attempted. When this limit is exceeded, inefficient work and inaccurate records will be the result.

The Cash Journal. The cash journal is usually understood to be a combination of the journal and cash book. Sometimes it is used as the sole book of original entry. In reality, it is a columnar journal in which provision has been made for segregating cash transactions in special columns and for distribution of other types of transactions. This form of journal is quite popular in some lines of business but is often objected to by practicing accountants because of difficulty encountered in auditing, and because of the number of errors which result from its use. Most of the errors are the result of recording amounts in the wrong columns. This type of error is difficult to locate either by the bookkeeper in checking his work or by the accountant in auditing the work. Illustration No. 29 shows a form of cash journal applicable to a garage business.

Petty Cash Disbursements Record. It is customary, with most firms, to provide a limited fund out of which payments of small items or petty expenses may be made. An account with Petty Cash Fund is kept in the general ledger. The clerk or bookkeeper in charge of the petty cash fund keeps a record of disbursements. This record is usually arranged so that the disbursements are distributed in accordance with the nature of the expenses.

The petty cash fund is created by writing a check payable to Petty Cash. This check is entered on the payments side of the cash book, Petty Cash Fund being debited. The amount of the fund will depend upon the number of petty expenses incurred. It may be for any amount desired, but usually does not exceed $100.00 and frequently is not more than $10.00, $25.00 or $50.00. The check is cashed and the money kept on hand in the office. A voucher or receipt is required for each payment made from this fund. These vouchers provide the information needed in recording the payments in the petty cash disbursements record. At the end of each accounting period, or when it becomes necessary to replenish the fund, the petty

CASH JOURNAL

DATE	F.	ACCOUNT	CASH		GENERAL LEDGER		CUSTOMERS' LEDGER		CREDITORS' LEDGER	
			Receipts	Payments	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.

(Left-hand Page)

CASH JOURNAL

SALES (CR.)							EXPLANATION
New Cars	Used Cars	Tires and Tubes	Gas, Grease and Oil	Accessories	Storage	Repairs	

(Right-hand Page)

(Illustration No. 29)

PETTY CASH DISBURSEMENTS RECORD

DATE	EXPLANATION	AMT. REC'D.	DISBURSEMENTS						TOTAL PAY.
			Postage	Freight and Express	Office Supplies	Repairs	SUNDRIES		
							Account	Amount	

(Illustration No. 30)

cashier makes a report of the disbursements. The vouchers should accompany this report. When this report is received, a check is written to replenish the fund and an entry is made on the payments side of the cash book, debiting the various expenses. The fund may be replenished at any time by writing another check for an amount equal to the disbursements. This method of handling the petty cash fund is known as the "Imprest system." In Illustration No. 30 a petty cash book is shown in which columns have been provided for expenses which may be paid out of the fund provided for that purpose.

SUMMARY

Cash is one of the most important assets of a business. More care is usually exercised in safeguarding and in accounting for cash than any other asset. A continuous internal check should be maintained and there should be a frequent proving of the cash balance by means of an actual count of the cash on hand and a reconciliation of the bank balance. All receipts should be deposited and all major disbursements should be made by bank check. Only petty disbursements should be made in cash.

Cash transactions are of two general types; first, those involving receipts, and second, those involving disbursements. Separate records may be used for recording each type, or a combined record may be used for both types. If desired, the journal and cash book may be combined into a cash journal. The use of special records and special columns facilitates a classification of the data and saves time in posting. When separate records are kept for receipts and disbursements with different persons in charge of each, there is less danger of embezzlement or manipulation of funds, and a better internal check is provided. The same general principles govern the designing of cash records as are involved in designing other accounting records.

A cash book should not be considered as a substitute for the Cash account. A summary Cash account should be kept in the general ledger. This account may be debited for the total receipts and may be credited for the total disbursements for each accounting period, the net receipts and disbursements being posted at the same time the footings of the special columns are posted from the cash book to the general ledger accounts.

QUESTIONS

5—39. Explain the theory of the cash book and state some advantages derived from its use as compared with the recording of cash transactions in a general journal.

5—40. (a) What are the fundamental columns of a cash book?

(b) What factors should be considered in determining the number of special columns to be provided in a cash book?

5—41. Name some advantages of the use of special columns in the cash book.

5—42. Outline a cash book which will provide for controlling accounts of customers and creditors, also for discounts in settlement of both receivable and payable accounts; embrace also a method to include bank records.

5—43. What is meant by "proving cash"? Explain how you would prove cash using the cash book devised in connection with the previous problem.

5—44. Explain the theory of the "imprest system" for handling petty cash disbursements and describe a form of petty cash book such as might be used in a retail store.

5—45. Why is it advisable to keep a Cash account in the general ledger when the cash balance can always be ascertained by reference to the cash book?

5—46. Why is it usually advisable to provide a special column on the receipts side of the cash book for recording cash discounts allowed customers, receipts side of the cash book for recording cash discount allowed customers, and a special column on the disbursements side of the cash book for recording cash discounts received from creditors?

PROBLEMS

5—19. As the accountant for W. E. Davis Company, you are required to reconcile the statement received from the bank on December 31 with the balance shown by your cash records. In proving cash you find that your balance amounts to $4,456.75. Of this amount, $6.00 in cash is on hand and the balance in the bank per check register is $4,450.75. The statement received from the bank reveals the following:

Balance on deposit, November 30, $3,937.20
Deposits:

December	4	$2,011.10
	11	500.00
	18	750.00
	20	45.00
	25	174.80
	29	1,280.20

Checks cancelled:

December	6	$ 80.00	December	10	$ 150.00
		100.00			25.00
	7	102.00			50.00
		152.00		12	100.00
	8	96.80			139.50
		300.00		14	32.50
		623.50		20	63.00
		572.10			250.00
	9	300.00		22	375.00
		189.10		27	200.00
		30.00			

What was the amount of checks outstanding on December 31?

5—20. The following transactions involving the receipt or payment of cash, were taken from the books of F. E. Williams Company:

Jan. 3. 1929. Issued a check for $245.00 paying the R. D. Goodwin Co.'s invoice of January 1, discount 2%.

5. Received a check for $1,010.00 in payment of note receivable and interest of H. D. Henry dated September 1.

6. Cash sales for the day amounted to $87.50.

8. Received a check for $2,115.00 from the A. T. Spratt Co. in payment of invoice dated January 2.

9. Cash amounting to $30.00 was refunded to customer because of unsatisfactory goods sold for cash on January 6.

12. R. B. Windsor owing us $300.00 and in the hands of a receiver, settled on the basis of 40¢ on the dollar.

13. Sent a check for $2,214.75 to O. R. Frazey & Co. in payment of their invoice of January 4, discount 1%.

16. Made a cash purchase of merchandise amounting to $120.00.

18. The F. E. Williams Company received $2,227.50 from The First National Bank by discounting its own 60-day 6% note for $2,250.00.

19. Paid by checks the following:

A. E. Anderson Co.	$750.00
T. O. Daugherty & Son	138.00
E. M. Murchison	865.50
F. D. Randall Co.	71.30
J. M. Warren Mfg. Co.	387.55
R. A. Scott	243.80

30. Received a check for $885.00 from H. D. Young in full payment of his account, discount allowed $15.00.

The bookkeeper for this Company has been using a simple form of cash book similar to the one shown in Illustration No. 25. You have been consulted in regard to designing a special column cash book which will be better

suited to the needs of this business and you have decided to design a cash book similar to the one shown in Illustration No. 26. Design such a cash book ruling it and inserting the headings exactly as they should be printed, then record the transactions for January so that the copy may serve as a model for the bookkeeper to follow in the future.

5—21. The S. E. Brooks Company decides to create a Petty Cash Fund out of which miscellaneous expenditures may be made. A fund of $100.00 is created by writing a check payable to Petty Cash. This check is cashed and the money is placed in the hands of a petty cashier who is authorized to make disbursements out of the fund for miscellaneous expense bills not exceeding $5.00. The cashier is instructed not to make any payments out of this fund without obtaining a voucher or receipt which is to be held until the end of the month when the petty cashier is to submit a report to the general accountant at which time the fund will be replenished by writing a check equal to the amount of the expenditures during the month.

On January 1, 1929, the fund is started with $100.00. During the month the following disbursements are made from this fund:

Jan. 2, 1929. Paid telegram charge amounting to 60¢.
Received rubber stamp for office use, sent C. O. D. amounting to $1.15 which was paid out of the petty cash fund.
3. Paid taxi charge amounting to $1.75.
4. Paid postage 86¢.
5. Purchased office supplies, paying $3.45 cash.
6. Paid $3.00 for cleaning windows.
8. Paid $2.30 for hardware used in repairing.
Received express shipment sent collect, charges $4.82.
9. Paid car fare of messenger 30¢ for delivering merchandise.
11. Purchased paint for 50¢.
13. Paid postage on returned mail 34¢.
14. Paid notary fee of $1.50.
17. Purchased six dozen pencils which amounted to $3.00.
20. Paid freight on shipment amounting to $4.65.
23. Paid $4.50 for cleaning office.
25. Postage amounting to $4.12 was paid.
27. Paid $2.50 for services of office boy.
29. Paid express charges amounting to $2.85.
31. Submitted report of petty cash disbursements for month and received check amounting to $42.19 to replenish petty cash fund.

Design a suitable record to be used as a Petty Cash Book providing for a classification of expenditures as follows: Postage, Freight and Express, Office Supplies, Repairs and Sundry Accounts, and record therein the disbursements for the month of January. Also draft a general journal entry for the check written on January 1 to create the fund and for the check written on February 1 to replenish the fund.

CHAPTER SIX

MISCELLANEOUS RECORDS AND FORMS

1. Miscellaneous Special Journals

(a) Note journals

(1) Notes receivable journal
(2) Notes payable journal

(b) Private journal
(c) Private cash journal

2. Auxiliary Records

(a) Note registers

(1) Notes receivable register
(2) Notes payable register

(b) Fire Insurance Register

3. Corporate Records

(a) Minute book
(b) Subscription register
(c) Stock certificate book
(d) Transfer register
(e) Dividend book
(f) Corporation journal

In the preceding chapters the more commonly used journals have been discussed. Buying and selling are important functions in most businesses, hence it is logical that the records for these operations should be developed first. In every business some cash is handled and it is necessary to devise suitable records to be used in accounting for cash. In many businesses other records of original entry are necessary and this chapter will be devoted to such miscellaneous records and forms which may be found in use in different types of business. These records may be classified under two main headings:

1. Miscellaneous special journals
2. Auxiliary records.

NOTES RECEIVABLE JOURNAL

DATE RECEIVED	NO.	FROM WHOM RECEIVED	F.	NOTES RECEIVABLE DR.	INTEREST INCOME		CUSTOMERS' LEDGER Cr.	GENERAL LEDGER Cr.
					Dr.	Cr.		

(Left-hand Page)

MAKER OR DRAWEE	DATE OF PAPER	TIME TO RUN	Rate of Int.	WHEN DUE	WHERE PAYABLE	REMARKS

(Right-hand Page)

(Illustration No. 31)

NOTES PAYABLE JOURNAL

DATE GIVEN	NO.	IN WHOSE FAVOR	F.	NOTES PAYABLE CR.	INTEREST COST		CREDITORS' LEDGER DR.	GENERAL LEDGER DR.
					DR.	CR.		

(Left-hand Page)

MAKER OR DRAWEE	DATE OF PAPER	TIME TO RUN	Rate of Int.	WHEN DUE	WHERE PAYABLE	REMARKS

(Right-hand Page)

(Illustration No. 32)

The distinction between these types of records is determined by the purpose they serve. Any record which serves as a posting medium may be considered a record of original entry or a journal, but when it does not serve as a posting medium it may be considered an auxiliary or memorandum record.

MISCELLANEOUS SPECIAL JOURNALS

Note Journals. Transactions involving notes receivable and payable are common to most businesses. The frequency of such transactions determines largely the method to be used in accounting for them. When such transactions are quite numerous it may be advisable to devise special note journals which will serve as posting mediums and which will also provide a complete record of the notes so as to eliminate any need for additional note registers.

Notes Receivable Journal. All notes received from customers and others in the course of business may be recorded in a special journal. The standard form of notes receivable journal usually used is shown in Illustration No. 31. It will be seen that this provides a complete record of the note and interest from the time the note is received until it is paid by the maker. It also serves as a posting medium. The posting procedure is as follows:

(a) The amount of each individual note is posted to the credit of the proper account in either the customers' ledger or the general ledger depending upon whether or not the note was received from a trade customer.

(b) The total amount of notes received during the accounting period is posted to the debit of the Notes Receivable account which is a summary account kept in the general ledger.

(c) Two money columns are provided for Interest Income. Any increase in income because of interest is credited to the account while any decrease in the income from interest is debited to the account. The footings of the columns are posted at the end of the accounting period to the Interest Income account in the general ledger.

Notes Payable Journal. All notes given to creditors and others in the course of business may be recorded in a special journal. A standard form of notes payable journal is shown in Illustration No. 32. It will be seen that this provides a com-

plete record of the note and interest from the time the note is given until it is paid. It also serves as a posting medium. The posting procedure is as follows:

(a) The amount of each individual note is posted to the debit of the proper account in either the creditors' ledger or the general ledger depending upon whether or not the note is given to a trade creditor.

(b) The total amount of notes given during the accounting period is posted to the credit of the Notes Payable summary account in the general ledger.

(c) Two money columns are provided for Interest Cost. Any increase in cost because of interest is recorded as a debit to the account while any decrease in the cost because of interest is credited to the account. The footings of the columns are posted at the end of the accounting period to the Interest Cost account in the general ledger.

Private Journal. Sometimes it is desired to keep a private record of some of the property owned and some of the business operations. Various reasons may be cited to justify the keeping of private records. The most common perhaps is the desire to keep certain information from employees and competitors. To facilitate this, certain accounts may be kept in a private ledger, and a private journal may be used as a posting medium. A private ledger controlling account is kept in the general ledger and a general ledger controlling account is kept in the private ledger so that each ledger will balance independent of the other.

Any desired accounts may be kept in the private ledger. Usually an ordinary two-column journal, ruled similar to the general journal shown in Illustration No. 40, is used as a private journal in which all transactions are recorded which affect the accounts kept in the private ledger. The private records usually are kept by the proprietor or one of the officials of the company, or by a trusted employee. To illustrate the operations of private records, it will be assumed that A. L. Allyn, the proprietor of a mercantile business, wishes to transfer the following accounts to a private ledger:

Inventory	$ 3,000.00
Land	8,000.00
Mortgage Payable	4,000.00
A. L. Allyn, Capital	12,000.00

He does not want his bookkeeper to know how much he has invested in the business or the amount of the mortgage on his land. Therefore, he decides to keep these accounts in a private ledger in the future. To transfer the accounts from the general to the private ledger the following general journal entry is required:

A. L. Allyn, Capital	$12,000.00	
Mortgage Payable	4,000.00	
Inventory		$3,000.00
Land		8,000.00
Private Ledger Control		5,000.00

A reverse entry should then be made in the private journal as follows:

General Ledger Control	$8,000.00	
Inventory	3,000.00	
Land	5,000.00	
Mortgage Payable		$ 4,000.00
A. L. Allyn, Capital		12,000.00

When this entry is posted to the private ledger, the balance of the accounts will be the same as they were in the general ledger before the transfer entry was made. It will be noted that the balance of the General Ledger Control account is the same as the balance of the Private Ledger Control account, the former having a debit balance and the latter a credit balance. The balances of these accounts will always be the same when all posting has been completed. After opening the private ledger all transactions affecting the accounts kept in the private ledger will be recorded in the general books as either a debit or credit to the Private Ledger Control account. Detailed entries will then be made in the private journal from which they will be posted to the specific accounts kept in the private ledger, the offsetting debit or credit being to the General Ledger Control account.

Private Cash Journal. If it is desired to keep a Cash account in the private ledger in conjunction with a private checking account in the bank, a private cash journal similar to the one shown in Illustration No. 36 may be used advantageously. Ordinarily satisfactory results will not be obtained from the use of private records unless a private checking account is kept so that disbursements may be made out of the private funds secretly.

In designing a private cash journal for Mr. Allyn, provision was made for keeping the following accounts in the private ledger:

General Ledger Control	Notes Payable
Cash	Mortgages Payable
Land	A. L. Allyn, Capital
Inventory	A. L. Allyn, Personal

Special columns were provided in the private cash journal for those accounts affected most frequently by the transactions. The entries appearing in Illustration No. 36 are based upon the following narrative of transactions:

Jan. 1, 1929. Transferred the following accounts from the general ledger to the private ledger:

Inventory	$ 3,000.00
Land	8,000.00
Mortgages Payable	4,000.00
A. L. Allyn, Capital	12,000.00

5. Transferred $2,500.00 from the general cash fund to a private checking account.

This transaction was recorded on the general books as follows:

Private Ledger Control	$2,500.00	
Cash		$2,500.00

10. Mr. Allyn borrowed $4,000.00 from the bank on a 60-day note, interest at 7% to be paid at maturity of the note. The amount borrowed was credited to Mr. Allyn's private checking account.

The general ledger accounts were not affected by this transaction.

20. Paid mortgage for $4,000.00 due today with interest amounting to $120.00, with check drawn on private checking account.

This transaction was recorded on the general books as follows:

Interest Cost	$120.00	
Private Ledger Control		$120.00

Feb. 1. Mr. Allyn withdraws for personal use, merchandise valued at $150.00.

This transaction was recorded on the general books as follows:

Private Ledger Control	$150.00	
Purchases		$150.00

15. Mr. Allyn adds $5,000.00 to his investment in the business and purchases a lot for $6,000.00 on which he expects to construct a store in the near future.

No entry required on the general books.

Mar. 1. Transferred $7,500.00 from the general cash fund to the private checking account.

This transaction was recorded on the general books as follows:

Private Ledger Control.....	$7,500.00	
Cash.....		$7,500.00

10. Paid note for $4,000.00 due at bank today, plus interest amounting to $46.67.

This transaction was recorded on the general books as follows:

Interest Cost.....	$46.67	
Private Ledger Control.....		$46.67

At the end of the accounting period it is usually advisable to close the temporary proprietorship accounts through the private ledger. This is done by debiting the Private Ledger Control account for those temporary proprietorship accounts appearing on the general ledger with debit balances, and crediting the Private Ledger Control account for those temporary proprietorship accounts appearing on the general ledger with credit balances. In other words, the Private Ledger Control account is debited and credited in the place of the Profit and Loss Summary account in drafting the closing entries. Then an entry is made in the private journal or the private cash journal, transferring those temporary proprietorship accounts which were kept in the general ledger to a Profit and Loss Summary account which is kept in the private ledger. This plan will prevent the general bookkeeper from knowing the amount of the profit derived from the operation of the business.

AUXILIARY RECORDS

As previously explained, auxiliary records are those records which do not constitute a posting medium but which provide detailed information supporting the information provided in the regular journals and ledgers. In practically every business, there are numerous auxiliary records and forms kept. No attempt will be made to discuss all of these records and forms but a few of the most generally used types of auxiliary records will be discussed.

NOTES RECEIVABLE REGISTER

DATE REC'D.	No.	FROM WHOM RECEIVED	MAKER OR DRAWEE	IN WHOSE FAVOR

(Left-hand Page)

WHERE PAYABLE	DATE OF PAPER	TIME TO RUN	WHEN DUE	AMOUNT	Rate of Int.	WHEN PAID	REMARKS

(Right-hand Page)

(Illustration No. 33)

NOTES PAYABLE REGISTER

DATE GIVEN	NO.	TO WHOM GIVEN	MAKER OR DRAWEE	IN WHOSE FAVOR

(Left-hand Page)

WHERE PAYABLE	DATE OF PAPER	TIME TO RUN	WHEN DUE	AMOUNT	Rate of Int.	WHEN PAID	REMARKS

(Right-hand Page)

(Illustration No. 34)

FIRE INSURANCE REGISTER

DATE OF POLICY	NO. OF POLICY	NAME OF COMPANY	TIME	TOTAL AMOUNT COVERED	AMOUNT OF PREMIUM	MONTHLY CH'GS.		TO EXPENSE		BALANCE UNEXPIRED INSURANCE
						Jan.	Feb.	Nov.	Dec.	

(Illustration No. 35)

PRIVATE CASH JOURNAL

DATE		EXPLANATION	GENERAL LEDGER CONTROL		PRIVATE LEDGER								Sundry Private Accounts			
					Cash		Land		Mortg. Pay.		Notes Pay.		Account	F.	Amount	
			(Dr.)	(Cr.)	(Dr.)	(Cr.)	(Dr.)	(Cr.)	(Dr.)	(Cr.)	(Dr.)	(Cr.)			(Dr.)	(Cr.)
1929																
Jan.	1	*Opening Entry*	5000 —				8000 —			4000 —			*A. L. Allyn, Cap.*			12000 —
													Inventory		3000 —	
	5	*Cash Transferred*		2500 —	2500 —											
	10	*Notes Payable*			4000 —							4000 —				
	20	*Mortgage Payable*	120 —			4120 —			4000 —							
Feb.	1	*Mdse. Withdrawn*		150 —									*A. L. Allyn, Per.*		150 —	
	15	*Investment*			5000 —								*A. L. Allyn, Cap.*			5000 —
	15	*Land Purchased*				6000 —	6000 —									
Mar.	1	*Cash Transferred*		7500 —	7500 —											
	10	*Notes Payable*	46 67			4046 67					4000 —					

(Illustration No. 36)

Note Registers. When note transactions are not sufficiently numerous to justify the use of special note journals, it is customary to keep a record of notes receivable and notes payable in the form of a register. These provide detailed information only and are not used as a posting medium. They merely support the entries made in the general books. The notes receivable register should provide a complete record of each note received from trade customers and others, from the time the note is received until it is paid by the maker. Likewise the notes payable register should provide complete information regarding each note given, from the time it is given until it is paid. The form of notes receivable and payable registers is quite well standardized and is shown in Illustrations Nos. 33 and 34. Since no posting is to be done from these registers, it is not necessary to provide columns for recording the amount of the interest received or paid.

Fire Insurance Register. A fire insurance register may be used to facilitate the recording of insurance costs. By reference to Illustration No. 35, it will be seen that the record provides information in regard to each policy. The amount of the premium on each policy is charged to the Insurance account from the cash book, no posting being done from the insurance register. Columns are provided for recording the amount of the insurance cost applicable to each month during the year. This makes it possible to charge against operations the monthly insurance cost. At the end of each month the column for that month is footed and the amount of the insurance cost applicable to the month is then recorded in the general journal by debiting Insurance Expense and crediting Insurance.

CORPORATE RECORDS

Accounting for corporations involves the recording of transactions which relate to subscriptions, stock and dividends which are typical of the corporate form of organization. In some states, the law requires that certain corporate records shall be kept. Usually the required records relate to capital stock only. To properly account for the capital stock of a corporation, it is necessary to record subscriptions taken, payments made to apply on subscriptions, the issuing of capital stock, the transfer of capital stock from one holder to another, and the payment of dividends to stockholders.

Minute Book. Minute books are usually kept for the purpose of recording the minutes of meetings of the incorporators, directors and stockholders. Ordinary blank books may be used for this purpose as the secretary simply records the proceedings of the meetings in narrative form. Sometimes the minutes are recorded in the general journal, or in the corporation journal, if a special journal is used for corporate transactions.

Subscription Register. The number of subscribers to the capital stock has a bearing upon the subscription records. Where there are only a few subscribers to the capital stock of a corporation, the subscriptions may be recorded in the general journal, but where there are many subscribers as is usually the case when large corporations are formed, it is customary to use a specially designed or standard form of subscription register. The subscriptions may be obtained over a comparatively long period of time. As they are received, they are recorded in the subscription register. The usual form of register used to record subscriptions is shown in Illustration No. 37.

The subscription register is an auxiliary record. Summary accounts with subscriptions are kept in the general ledger. Posting to these accounts may be from the general journal or the corporation journal. The subscription register provides the information needed in recording the subscriptions in the journal.

SUBSCRIPTION REGISTER

THE CENTRAL MANUFACTURING COMPANY

To be incorporated under the laws of the State of Ohio with an authorized capital stock of $250,000.00, divided into 2,500 shares with a par value of $100.00 each.

We, the undersigned, hereby severally subscribe for and agree to take at par, at the terms indicated, the number of shares of the capital stock of The Central Manufacturing Company set opposite our respective signatures.

Date	Name	Address	No. Shares	Am't Sub'd	Terms
1929					
Jan. 1	*Charles Pratt*	*Leavenworth, Kans.*	*500*	*$50,000*	*On demand*
1	*H. W. Henry*	*Canton, Ohio*	*500*	*50,000*	*On demand*
1	*J. F. Ward*	*Akron, Ohio*	*300*	*30,000*	*On demand*
2	*Henry L. Hunt*	*St. Louis, Mo.*	*150*	*15,000*	*On demand*
2	*L. G. Tillotson*	*Cleveland, Ohio*	*50*	*5,000*	*On demand*

(Illustration No. 37)

If the subscriptions are all taken over a short period of time, no entry need be made on the general books until all the subscriptions are recorded in the subscription register. Then an entry may be made in either the general journal or the corporation journal, debiting a summary account with Subscribers to Capital Stock and crediting a summary account with Subscriptions to Capital Stock. If the subscriptions are taken over a long period of time, it may be advisable to record the subscriptions received during each month at the end of the month, or more frequently if desired.

Stock Certificate Book. When subscriptions are paid in full and the stock is issued to subscribers, a certificate is given. Corporations usually have special certificates made up in the form of a book in which a stub is provided for recording full data concerning the certificates issued and cancelled. In a small closely owned corporation, subscribers may be required to acknowledge receipt of the stock by signing the stub, but of course, this policy cannot be followed in a large corporation. Illustration No. 38 shows the usual form of the stub in the stock certificate book.

Stock Certificate Stub

CERTIFACATE No. ....1...
For. ..... *Five hundred* ..... Shares..
ISSUED TO
Name. ..... *Chas. Pratt* .....
Address. ..... Leavenworth, Kansas .....
Dated. ..... *March 1,* 1929
FROM WHOM TRANSFERRED
..... *Original* .....
Dated ..... 19....

No. Original Certificate	No. Original Shares	No. Shares Transferred
1	500	

(Illustration No. 38)

Transfer Register. When a stockholder sells or transfers a part or all of his stock, the one who acquires title to the stock should have the stock transferred on the books of the issuing corporation. Usually only a memorandum entry for transfers is made in the corporation journal although, if desired, a special transfer register may be kept. These transfers affect only the accounts with stockholders in the stockholders' ledger, and do not in any way affect the Capital Stock account or any other account in the general ledger unless the stock is being transferred back to the issuing company as Donated or Treasury Stock, or is being converted or canceled. As long as the transfer of stock does not affect the amount or class of stock outstanding, no accounts in the general ledger are affected.

Dividend Book. Sometimes a dividend book is kept. A complete record of the dividends declared and paid is entered therein. No special form is in use and it is seldom that a special book is kept, the usual plan being simply to record dividend transactions in the corporation journal (See Illustration No. 39) and cash book.

CORPORATION JOURNAL

STOCK-HOLDERS' LEDGER, (DR.)		GENERAL LEDGER	EXPLANATION	GENERAL LEDGER	STOCK-HOLDERS' LEDGER, (CR.)	
No. Cert.	No. Shares	(Dr.)		(Cr.)	No. Shares	No. Cert.
			JAN. 1, 1929			
		$250,000 —	*Unissued Capital Stock.....*			
			Authorized Capital Stock....	$250,000 —		
			The Central Manufacturing Co. was incorporated this date under the laws of the State of Ohio, with an authorized capital stock of $250,000.00, divided into 2,500 shares with a par value of $100.00 each.			
		150,000 —	*Subscribers to Capital Stock....*			
			Capital Stock Subscriptions.	150,000 —		
			Subscriptions to capital stock as per subscription register.			
			2			
			Subscribers to capital stock were assessed one-half the amount of their subscriptions. By agreement no certificates of stock are to be issued until stock has been fully paid for. (See cash book for entries on account of cash received from subscribers.)			
			MARCH 1			
		7,500 —	*Note Receivable.....*			
			Subs. to Capital Stock.....	7,500 —		
			Henry L. Hunt settles for balance due on his subscription by giving a 90-day note with interest at 6%.			
		150,000 —	*Capital Stock Subscriptions....*			
			Unissued Capital Stock.....	150,000 —		
			Certificates issued as follows:			
			Charles Pratt.....		500	1
			H. W. Henry.....		500	2
			J. F. Ward.....		300	3
			Henry L. Hunt.....		150	4
			L. G. Tillotson.....		50	5
			JULY 1			
3	300		*J. F. Ward, Cert. canceled*			
			J. E. O'Brien, Cert. issued..		50	6
			J. F. Ward, Cert. issued....		250	7
			J. F. Ward sells 50 shares of his stock to J. E. O'Brien.			

(Illustration No. 39)

Corporation Journal. A special journal may be used for recording corporate transactions. This is advisable only in case such transactions are quite numerous or when it is desired to keep a private record of corporate transactions. A corporation journal may be ruled with special columns designed to save time in posting and to facilitate the classification of different kinds of capital stock. One form of corporation journal is shown in Illustration No. 39, with the following transactions recorded therein:

Jan. 1, 1929. The Central Manufacturing Co. is incorporated under the laws of Ohio with an authorized capital stock of $250,000.00 divided into 2,500 shares with a par value of $100.00 each.

2. The following subscriptions for capital stock were received at par:

Charles Pratt, Leavenworth, Kansas	500	shares
H. W. Henry, Canton, Ohio	500	"
J. F. Ward, Akron, Ohio	300	"
Henry L. Hunt, St. Louis, Mo	150	"
L. G. Tillotson, Cleveland, Ohio	50	"

5. Subscribers were assessed one-half the amount of their subscriptions and payment was received.

Mar. 1. Henry L. Hunt pays the balance due on his subscription to capital stock by giving a 90-day note with interest at 6%. All of the other subscribers pay the balance due on their subscriptions in cash. Certificates are then issued to all subscribers.

July 1. J. F. Ward sells 50 shares of his stock to J. E. O'Brien, price unknown.

GENERAL JOURNAL

F.	ACCOUNT	DR.	CR.

(Illustration No. 40)

GENERAL JOURNAL

The general journal is used to record all transactions which cannot be recorded in the special journals. Where special journals are provided for recording purchases, sales, cash, and note transactions, the general journal will not contain a record of many operating transactions, but will be used principally for recording opening, correcting, adjusting, closing, and post-closing entries.

The journal may be ruled with two money columns only—one for debits and one for credits—as shown in Illustration No. 40. It is, however, often advisable to provide special columns in the general journal as well as in other books of original entry. If subsidiary ledgers are kept for customers and creditors with controlling accounts in the general ledger, it may be advisable to provide special columns in the journal for recording transactions affecting the controlling accounts. This form of journal is shown in Illustration No. 41.

GENERAL JOURNAL

Creditors' Ledger Dr.	Customers' Ledger Dr.	General Ledger Dr.	Account	General Ledger Cr.	Customers' Ledger Cr.	Creditors' Ledger Cr.

(Illustration No. 41)

SUMMARY

In almost every type of business, there will be found records peculiar to that particular business. The accountant who specializes in system building or constructive accounting will need to be familiar with business customs and practice in many different lines of business. The wider acquaintance he has with business types, business methods, business practice and business administration, the better qualified he will be for this branch of accounting practice. Before undertaking to devise and install a system of accounts for any business, it is essential that the accountant be familiar with the details of the operations of that business.

QUESTIONS

6—47. What is the distinction between journals, which serve as posting mediums, and auxiliary records?

6—48. Distinguish between note journals and note registers.

6—49. What is the object of private records?

6—50. Under what conditions would it be advisable to use a private cash journal?

6—51. How are the principles of the double entry system applied to the use of the private journal and ledger?

6—52. What is the function of a fire insurance register?

6—53. What is meant by corporate transactions?

6—54. Assuming that accounts are kept with Authorized Capital Stock and Unissued Capital Stock, and that stockholders accounts are kept in a subsidiary ledger, how would you ascertain the amount of the capital stock outstanding?

6—55. What is the purpose of a corporation journal and wherein does it differ from a general journal?

6—56. What types of entries are usually recorded in the general journal when special journals are provided for recording purchases, sales, cash and notes?

PROBLEMS

6—22. Design a notes receivable journal for The Simpson Supply Co. similar to the one shown in Illustration No. 31, and record the following transactions:

Jan. 1. 1929. Received a 30-day 6% note from R. A. Marksbury for $150.00 dated January 1, 1929, to apply on account.

4. Received a note for $75.00 from J. D. Surran, dated January 3, due in sixty days with interest at 6%.

5. Earl S. Ford transferred to The Simpson Supply Co. a note amounting to $225.00 dated December 20, 1928, due in ninety days with interest at 6%. Maker of the note is D. M. Davis.

8. Received a note from H. A. Oelker amounting to $35.00 dated January 5, due in sixty days with interest at 6%.

11. Received a note from R. D. Swartz for $175.00, dated January 10 and due in thirty days with interest at 6%.

12. E. G. Barrow transferred note signed by A. O. Long, amounting to $70.00, dated November 1, 1928, and bearing interest at 6%. It was agreed that he should receive credit for the face of the note plus accrued interest to date.

13. Received a note from M. H. Tuhey for $325.00, dated January 10, 1929, due in thirty days with interest at 7%.

17. Received a note transferred by E. D. Frazey amounting to $120.00 dated January 1, 1929, due in sixty days with interest at 5½%. Maker of the note is Clyde O. Hibbard.

18. Received a note from Donald Warren amounting to $50.00, dated January 15, 1929, due in thirty days with interset at 6%.

20. Received a note from Hugh McConnell for $165.00, dated Janusry 15, 1929, due in ninety days with interest at 6%.

6—23. Design a notes payable journal for The Simpson Supply Co. similar to the one shown in Illustration No. 32, and record the following transactions:

Jan. 3. 1929. Gave the J. D. Lackas Co. a note for $350.00, dated January 1, 1929, due in sixty days with interest at 5½%.

5. Gave the Lee and Douglas Co. a note for $235.50, dated January 2, 1929, due in thirty days with interest at 4%.

6. Gave the Newman Supply Co. a note amounting to $125.00, dated January 5, 1929, due in thirty days with interest at 4%.

8. Gave a sixty-day 6% note, dated January 6, 1929, amounting to $50.00 to the Horne & Steele Co.

11. Gave the R. D. Jernigan Co. a note amounting to $285.75, dated January 9, 1929, due in ninety days with interest at 5½%.

12. Gave the Nathan Supply Co. a note for $315.25, dated January 11. 1929, due in sixty days with interest at 6%.

14. Gave the City Supply Co. a note for $130.00, dated December 1, 1928, due in ninety days with interest at 6%.

16. Gave E. T. Johns a note for $45.00, dated January 10, 1929, due in thirty days with interest at 5%.

17. Gave A. J. Horner a note for $85.00, dated January 15, 1929, due in thirty days with interest at 6%.

19. Gave D. S. Miller a note in full payment of an account for $250.00 including interest at 5% for ninety days in the face of the note.

6—24. Design a fire insurance register for The Simpson Supply Co. similar to the one shown in Illustration No. 35 and record the following data:

The United States Fire Insurance Company has issued policy #M2153 to the Simpson Supply Co. for the term of one year, from the first day of April, 1929, to the first day of April, 1930, against all direct loss or damage by fire on stock of every description to an amount not exceeding $5,000.00. The annual premium on this policy at the rate of .375 amounts to $18.75.

6—25. L. B. Davy is the owner of a brokerage business and desires to transfer the following accounts from the general ledger to a private ledger:

L. B. Davy, Capital (Cr.) $24,000.00
L. B. Davy, Personal (Dr.) $1,200.00
Buildings (Dr.) $12,000.00
Land (Dr.) $6,000.00

Mortgage Payable (Cr.) $7,000.00

Draft entries to be recorded in both the general and private journals to transfer the accounts from the general to the private ledger.

6—26. Design a private cash journal for L. B. Davy similar to the one shown in Illustration No. 36. Provide for keeping accounts with Cash, Land, Buildings, Mortgages Payable, Notes Payable, Inventory, Profit and Loss, L. B. Davey, Capital, L. B. Davy, Personal and a General Ledger Control account in the private ledger. After designing the private cash journal, record the following transactions showing the entries to be made in the general journal as well as in the private cash journal:

Jan. 1, 1930. Transferred $2,500.00 from the general cash fund to a private checking account.

Feb. 15. Paid with check drawn against private checking account, the semi-annual interest due on mortgage amounting to $2.10 and $1,000.00 to apply on principal of mortgage.

Apr. 1. L. B. Davy withdrew from the general cash fund $600.00 which he wishes charged to his Personal account.

July 1. Purchased land for $2,500.00 paying $1,000.00 out of the private cash fund and giving a note for $1,500.00 due one year from date with interest at 6%.

Dec. 31. After determining the net profit for the year it was decided to distribute it by transferring $2,000.00 to L. B. Davy's Capital account and the balance amounting to $1,218.40 to his Personal account.

6—27. Design a corporation journal similar to the one shown in Illustration No. 39 and record the following corporate transactions:

Jan. 1. 1930. The City Manufacturing Co. is chartered under the laws of Illinois which authorizes the company to issue capital stock as follows: 2,000 shares of preferred stock, par value $100.00, and 8,000 shares of common stock, no par value.

Mar. 1. Subscriptions obtained to the capital stock as shown by the subscription register amount to 1,000 shares of preferred stock at par and 2,500 shares of common stock at $50.00 per share.

July 1. Having received cash in full for stock subscribed March 1, stock certificates are issued to all subscribers.

Aug. 1. Issued Certificate No. 51 for 100 shares of common stock to George L. Sherman in payment of land to be used as a site for a new factory. The land is valued at $5,000.00.

Oct. 1. George L. Sherman transferred 50 shares of his common stock to C. E. Harrison to whom he has sold the stock and requests that the transfer be made on the records of the company. Certificate No. 51 is canceled and Certificates Nos. 52 and 53 are issued to Mr. Sherman and Mr. Harrison for 50 shares each.

CHAPTER SEVEN

GENERAL AND SUBSIDIARY LEDGERS

1. **The General Ledger**
   - (a) **Form**
   - (b) **Arrangement of accounts**
   - (c) **Control of system**
2. **Subsidiary Ledgers**
   - (a) **Customers' ledger**
   - (b) **Creditors' ledger**
   - (c) **Private ledger**
   - (d) **Subscribers' ledger**
   - (e) **Stockholders' ledger**

THE GENERAL LEDGER

The ledger is a book of final entry. It contains the final record of the operations of a business. The transactions are first recorded in the books of original entry in chronological order and subsequently are posted to the ledger where they are summarized under appropriate account titles.

In charting the accounts for a business, it is necessary to determine what accounts shall be kept, what titles shall be given the accounts, the order in which they shall appear in the ledger, and whether or not the accounts will be coded. After charting the accounts, it is necessary to determine whether all the accounts will be kept in one general ledger, or whether special ledgers will be kept for certain groups of accounts. The nature and volume of the business are important factors in determining any subdivision of the ledger. In a small business it may be advisable to keep all the accounts in one ledger. If desired, the accounts may be grouped in different sections of the ledger; that is, such groups of accounts as customers' and

ACCOUNT

DATE	EXPLANATION	F.	DR.	DATE	EXPLANATION	F.	CR.

Ledger Ruling (Illustration No. 42)

ACCOUNT

DATE	EXPLANATION	F.	DR.	CR.	BALANCE

Ledger Ruling (Illustration No. 43)

ACCOUNT

DATE	EXPLANA-TION	F.	DR.	BAL-ANCE	CR.	F.	EXPLANA-TION	DATE

Ledger Ruling (Illustration No. 44)

creditors' accounts may be kept in separate divisions or sections of the same ledger. If the volume of the business is such that it is advisable to segregate different groups of accounts into different ledgers so that more than one bookkeeper may do the posting, this may be done by simply keeping certain groups of accounts in subsidiary ledgers. The remaining accounts, together with controlling accounts for the subsidiary ledgers, will then be kept in a general ledger.

Form of Ledger. A ledger is generally ruled so that the debits may be recorded on the left side and the credits on the right side of the account. Columns are provided on each side for recording the date, explanation, folio, and the amount of each transaction. The sum of the items recorded on each side of the account is known as the footing. The difference between the footings represents the account balance. The account is said to be in balance when the two sides are equal.

The most simple form of ledger ruling is shown in Illustration No. 42. If it is desired to have the account ruled so that a continuous balance may be shown, an additional money column may be provided, either at the right, as in Illustration No. 43, or in the center, as in Illustration No. 44. The use of a balance column facilitates the taking of a Trial Balance. It also provides convenient reference at all times, because the balance of the account is continuously shown.

The ruling of the ledger may be varied in order to provide for progressive posting or to provide for special information needed by the management in certain types of businesses. The progressive type of ledger sheet is shown in Illustration No. 45. This type of ledger is often referred to as the "Boston Skeleton Ledger" because it was originally developed for use in the banks of the city of Boston for depositors' accounts. It will be observed that in this form of ledger the account progresses horizontally from left to right across a continuous record page, instead of being summarized in vertical columns as in the simple form of ledger. The progressive form of ledger is well adapted to such businesses as banks, real estate agencies, storage warehouses, public utilities, clubs, and lodges.

Where the management desires special information, the ledger may be ruled so as to provide for an analysis of the entries. This form of ledger ruling is shown in Illustration No. 46. This is an illustration of the patronage ledger, designed

DEPOSITORS' LEDGER

Names	Year 1929	Checks and Deposits	Balance	Jan. 1 Checks and Deposits	Jan. 1 Balance	Jan. 2 Checks and Deposits	Jan. 2 Balance	Jan. 3 Checks and Deposits	Jan. 3 Balance
Ames, B. E..... 1	Deposits		141 50	50 00	119 25		92 95	75 00	167 95
	Checks			72 25		26 30			
Dewey, V. R..... 2	Deposits		71 26		43 16	165 32	160 23		85 63
	Checks			28 10		48 25		74 60	
Edwards, A. D..... 3	Deposits		11 89	79 50	91 39		6 64	35 00	19 14
	Checks					84 75		22 50	
Harrison, S. F..... 4	Deposits		312 14	120 00	160 64		45 44	132 60	178 04
	Checks			271 50		115 20			
Kenny, T. J..... 5	Deposits		161 37		95 92	48 00	61 59	65 00	126 59
	Checks			65 45		82 33			
Owen, R. D..... 6	Deposits		72 31	45 35	95 11	28 80	123 91		44 71
	Checks			22 55				79 20	
Thompson, B. G..... 7	Deposits		239 18		106 97	52 00	158 97		33 67
	Checks			132 21				125 30	
Young, A. H..... 8	Deposits		482 37		259 42	74 05	214 06		145 70
	Checks			222 95		119 41		68 36	
Total.....	Deposits		1492 02	294 85	971 86	368 17	863 79	307 60	801 43
	Checks			815 01		476 24		369 96	

(Boston Skeleton Form of Ledger)
(Illustration No. 45)

PATRONAGE LEDGER

NAME: *Thomas Goodwin*

SALES									PURCHASES					
Chk. No.	Wheat	Durum	Barley	Oats	Rye	Flax	Corn	Live Stock	Sale No.	Hard Coal	Soft Coal	Flour	Grain	Sundries
60	36 —								81	27 50				
63	44 25								84	32 25				
64	67 85								85	14 —				
69			83 50						90		12 30			
71					44 60				92		28 —			
									96		17 75			
									99			10 70		

(Illustration No. 46)

in the Office of Markets and Rural Organizations of the United States Department of Agriculture for use of primary grain elevators. In some states laws have been enacted enabling cooperative organizations to distribute dividends upon a patronage basis. Elevators operating under this law need to keep account of the transactions with each person with whom the firm does business, in order that the dividends may be distributed on a basis of patronage. This form of ledger provides a medium for keeping a record of the customers' sales of farm products to the elevator and purchases of coal, flour, grain, etc., from the elevator.

Special ledgers may be designed to fit the requirements of any business or profession. Firms which sell merchandise on an installment basis may find it advantageous to have a special ruled form of installment ledger which will provide a complete record of sales terms for follow-up purposes. A form of installment ledger is shown in Illustration No. 47. In this form of ledger a division has been provided to record the various charges or installment contracts, and another division has been provided to record the weekly, semi-monthly, or monthly payments. An outstanding feature of this form is the "Collection Day" (1–31) printed across the heading of the sheet. Signals of alternate colors are used to designate the collection day, thereby eliminating the necessity of running through the entire ledger to locate the accounts due on certain dates.

Physicians and other professional men may need to use specially designed ledgers in which provision has been made to show the nature of the charges made during the month. Such a form of ledger is shown in Illustration No. 48. When this form of ledger is used, the nature of the services rendered may be indicated by means of a key such as the following:

"O" indicates Office Visits
"N" indicates Night Calls
"D" indicates Dressing
"H" indicates House Visits
"P" indicates Prescriptions
"C" indicates Consultations

The key letter is simply recorded in the proper column under the day of the month and the charge is recorded in the debit column.

INSTALLMENT LEDGER

Collection Day 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27 28 29 30 31

Employed by.....
Address.....
Position.....
How long.....
Reference .....
.....

Name .....
Address.....
.....
Removed to.....
.....
.....

CHARGES

Date	Memo	F.	Amount	Terms	Date	Memo	F.	Amount	Terms
				Weekly Semi-Monthly Monthly					Weekly Semi-Monthly Monthly

PAYMENTS

Date	F.	Amount Paid	Balance Due	Date	F.	Amount Paid	Balance Due	Date	F.	Amount Paid	Balance Due	Date	F.	Amount Paid	Balance Due

(Illustration No. 47)

PHYSICIAN'S LEDGER

Name

House Address — Business Address

Data — Phone No.

Yr.	Mo.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	Remarks	Dr.	Cr.	Balance

(Illustration No. 48)

Where accounting machines are used, special ledger sheets need to be designed to fit the machines and to provide the desired information. Most of the accounting machines now on the market can be adapted to the needs of any particular business and forms may be designed accordingly. Much of the system work in the future will involve the determination of the extent to which machines may be used for recording the operations of the business, and in designing special forms for machine use.

Arrangement of Accounts. In charting the accounts, provision should be made for a proper arrangement of the accounts in the ledger. The accounts kept in the general or controlling ledger are usually arranged in accordance with the order in which they will appear upon the Balance Sheet and the Profit and Loss Statement, the Balance Sheet accounts coming first and the Profit and Loss accounts last. If the accounts are numbered in accord with this order, they may then be arranged in the ledger in numerical order. Accounts with customers and creditors are usually arranged in alphabetical order in the subsidiary ledgers. However, if desired the accounts may be numbered and listed in numerical order without regard to the names. Sometimes the accounts are listed in geographical order or on some other basis. The purpose of a proper arrangement of the accounts in the ledger is to facilitate posting, provide for convenient reference, and to aid in the preparation of the periodic reports.

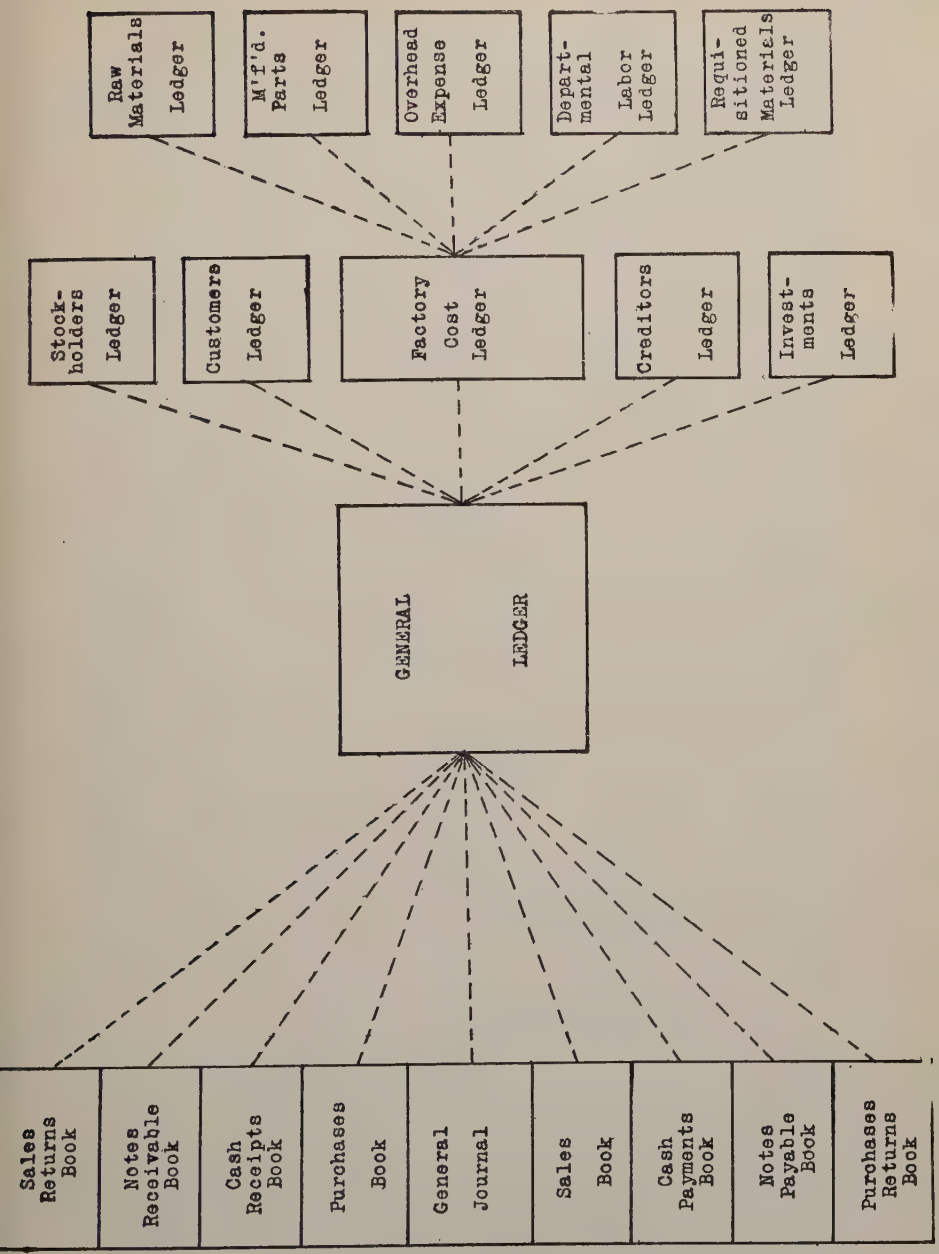
Control of System. Where a single ledger is kept, it will contain all of the accounts, but when, for any reason, it becomes necessary to subdivide the ledger, the general ledger becomes the controlling ledger. In fact, it occupies a dominant position in the accounting system. This is shown in Illustration No. 49. Control of the accounting system may be maintained in the general ledger. It is customary to provide controlling accounts for any groups of accounts which may be kept in subsidiary ledgers. The controlling account provides a summary of the debits and credits to the individual accounts kept in the subsidiary ledgers and, therefore, the controlling account balance may be proved by preparing a schedule of the subsidiary ledger account balances. In other words, the balance of the controlling account for Accounts Receivable should be the same as the

sum of the customers' account balances when a schedule of accounts receivable is prepared from the subsidiary ledger. Sometimes a controlling account is kept within the subsidiary ledger in order that it may be self-balancing. When this is done, the balance of the general ledger controlling account in the subsidiary ledger will be just the opposite of the balance of the subsidiary ledger controlling account in the general ledger. Thus one may be checked against the other for the purpose of verification.

THE SUBSIDIARY LEDGER

The fact has already been developed that it is frequently necessary to subdivide the ledger, in order that more than one bookkeeper may be engaged in posting the transactions. There may be other reasons for keeping certain groups of accounts in separate ledgers. For instance, it may be desired to keep certain accounts in a private ledger in order that certain information may be kept secret from the employees of the accounting department. Any group of accounts may be segregated in a subsidiary ledger. The most common groups to be so segregated are customers' accounts and creditors' accounts. However, such groups as investment accounts, fixed asset accounts, subscribers' accounts, stockholders' accounts, factory cost accounts, etc., may be kept in separate subsidiary ledgers if desired.

Customers' Ledger. When accounts with customers are kept in a separate ledger, it is usually known as a customers' ledger, a sales ledger, or an accounts receivable ledger. Ordinarily, this ledger will contain accounts with trade customers only. This ledger is controlled by means of a summary account in the general ledger. To facilitate posting to the individual accounts in the subsidiary ledger and the controlling account in the general ledger, a special column should be provided on the receipts side of the cash book. It may also be advisable to use a special column journal, wherein transactions affecting accounts with customers may be recorded in a separate column. The use of a special column in the books of original entry is an aid to posting, because it facilitates summary posting. For instance, payments received from customers to apply on account may be recorded in a special column headed Accounts



(Control of General Ledger in Modern Accounting Systems.)
(Illustration No. 49)

Receivable. While each item will need to be posted separately to the credit of the individual customer's account in the subsidiary ledger, only the footing of the column need be posted to the credit of the controlling account. Usually the summary posting is done on either a weekly or monthly basis.

Creditors' Ledger. When accounts with creditors are kept in a separate ledger it is usually known as a creditors' ledger, purchases ledger or an accounts payable ledger. Ordinarily this ledger contains the accounts with trade creditors only. It is controlled by means of a summary account in the general ledger which is usually given the same title as the subsidiary ledger. To facilitate posting to the individual accounts in the subsidiary ledger and the controlling account in the general ledger, a special column should be provided on the payments side of the cash book. It may also be advisable to use a special column journal wherein transactions affecting accounts with creditors may be recorded in a separate column. To prove the balance of the creditors' controlling account kept in the general ledger, it is only necessary to prepare a schedule of the accounts payable consisting of a list of the balances of the creditors' accounts. In case a controlling account for the general ledger is kept in the creditors' subsidiary ledger, the balances of these accounts may be compared as a means of proof.

Private Ledger. The use of the private records was introduced in Chapter Six. The information provided in some accounts might be of great importance to competitors and it is for that reason that it is often desired to keep them in a private ledger where the information will not be available to employees. Sometimes the fixed asset accounts and other important valuation accounts are kept in the private ledger. The capital, surplus, profit and loss and the salary accounts of important officials may also be kept in the private ledger. In fact, any desired accounts may be kept in the private ledger which is usually in charge of one of the officials of the company or a trusted employee. A private journal is usually kept in conjunction with the private ledger. It serves as a posting medium. Controlling accounts should be kept both in the private ledger and in the general ledger as a means of proof and to facilitate the taking of a Trial Balance from either ledger without access to the other ledger. The ruling of the private ledger is usually

STOCKHOLDERS' LEDGER

Charles Pratt — *Leavenworth, Kansas.* — No. *1.*

Date Transferred	To Whom Transferred	Certificate No. Old	Certificate No. New	No. Shares	Date Issued	From Whom Transferred	Certificate No. Old	Certificate No. New	No. Shares	Balance Credit No. Shares
					1929 March 1	*Original*		*1*	*500*	*500*
		J. F. Ward					*Akron, Ohio.*			*3*
July 1	*J. E. O'Brien*	*3*	*6*	*50*	*1929 March 1*	*Original*		*3*	*300*	*300*
1	*Self*	*3*	*7*	*250*	*July 1*	*Self*	*3*	*7*	*250*	*250*
		J. E. O'Brien					*Riverside, Calif.*			*6*
					1929 July 1	*J. F. Ward*	*3*	*6*	*50*	*50*

(Illustration No. 50)

similar to that shown in Illustration No. 42 although a specially ruled ledger may be used if it is considered advantageous.

Subscribers' Ledger. Accounts with subscribers may be kept in the general ledger or in a subsidiary subscribers' ledger. Where there are only a few subscribers, it is just as well to keep their accounts in the general ledger, but where the subscribers are numerous it is better to use a subsidiary subscribers' ledger, which is controlled by means of a summary account in the general ledger. Where there are only a few subscribers to the capital stock, the usual custom is to record the subscriptions in the general journal and post to the subscribers' account in the general ledger, no other records being kept. If, however, the subscriptions are numerous and subsidiary subscribers' ledgers are kept, the posting to the subscribers' account may be from the subscription register which becomes a posting medium. However, it differs from an ordinary journal in that the subscriptions recorded in it are summarized in a journal entry on the general books. The purpose of the subscribers account is to show the amount due from subscribers. Each subscriber is debited for the amount of his subscription and is credited for payments to apply on his subscription. When he has paid his subscription in full, the account will balance and the stock will be issued to him.

The subscribers' ledger is controlled by a summary account in the general ledger which is usually termed Subscribers to Capital Stock, or Subscriptions Receivable. Regardless of the title of the account it is a receivable account representing an asset of the business. On the other hand, the corporation's liability to subscribers on account of payments to apply on subscriptions is shown by another controlling account which is usually entitled Subscriptions to Capital Stock. The credit balance of this account should be equal to the debit balance of the subscribers' controlling account, one offsetting the other.

Stockholders' Ledger. The stockholders' ledger is usually a subsidiary ledger which is controlled by the capital stock accounts in the general ledger. It should not be confused with the subscribers' ledger as they serve an entirely different purpose. The subscribers' ledger shows the amount due from each subscriber. The stockholders' ledger shows the amount of capital stock issued and owned by each stockholder. In other

words, the stockholders' ledger provides a record of the outstanding or issued capital stock. Each stockholder's account will show the amount of stock actually issued and held, the accounts being credited with the amount of the stock issued and debited with the amount of the stock transferred. The balance of each stockholder's account represents the amount of stock owned.

In the Subscribers' ledger, each account will always have a debit balance unless a subscriber has overpaid his subscription. In the stockholders' ledger each account will have a credit balance so long as he owns any of the stock of the corporation. Of course, the stockholder's account will balance when he has all of his holdings transferred to someone else. A form of stockholders' ledger is shown in Illustration No. 50. The entries appearing in the accounts are posted from the corporation journal which was shown in Illustration No. 39.

SUMMARY

The fundamental accounting records are the journal and ledger. This chapter has been devoted to a discussion of the ledger. Different types of ledgers have been developed to meet the requirements of different types of business. The different types of ledgers may be divided into two classes as follows:

1. Standard ruled ledgers
2. Special ruled ledgers.

The standard ruled ledgers may be purchased through most stationery stores or from the blank book manufacturers. Special ruled ledgers are made up according to specifications. The standard form of ledger is extensively used for it is well adapted to the requirements of most businesses. However, in some cases it is advisable to design special ruled ledgers in which provision is made for a classification of data conforming to the desires of the management.

When it is necessary to subdivide the ledger to facilitate posting, or for other reasons, it is customary to segregate certain groups of accounts in subsidiary ledgers which are controlled by summary accounts kept in a general ledger, which also contains all of the other accounts which are not kept in the subsidiary ledger. The general ledger is the controlling ledger and the accounts in it should be kept so that the Trial Balance may be taken at intervals to prove the equality of the debit and

credit balances of the accounts. The controlling accounts should also be proved with schedules of the accounts taken from the subsidiary ledgers.

All entries appearing in the ledger accounts should be supported by the books of original entry or by appropriate vouchers. Ordinarily, items are not recorded directly in the ledger, but are transferred or posted to the ledger from the journals or books of original entry. However, in some cases where mechanical devices are used, entries may be made directly in the ledger accounts from the original vouchers, and in such cases the vouchers which support the entries should be filed in such manner that they will be available for convenient reference.

QUESTIONS

7—57. Distinguish between a general ledger and a subsidiary ledger.

7—58. Explain the function of a controlling account.

7—59. From what source would the data be obtained for a controlling account for accounts kept in a subsidiary accounts receivable ledger?

7—60. How may the balance of a controlling account for Accounts Payable be proved?

7—61. Explain what advantage may be derived from the keeping of a general ledger controlling account in a subsidiary ledger.

7—62. Wherein does the Boston Skeleton Form of Ledger differ from an ordinary ledger?

7—63. Explain how the accounts with creditors may be kept in a subsidiary ledger so that the bookkeeper may take a Trial Balance at the end of each month without having access to the general ledger.

7—64. In preparing a Balance Sheet would it be satisfactory to use the balance of the controlling accounts in determining the amount of the Accounts Receivable and Accounts Payable? If not, how should the amount be determined?

7—65. Wherein does a subscribers' ledger differ from a stockholders' ledger?

7—66. (a) How should the amount due from subscribers to capital stock be shown on the Balance Sheet?

(b) If separate accounts are kept in the general ledger for Unissued Capital Stock and Authorized Capital Stock, how may the amount of capital stock issued to stockholders be computed, and how may it be shown on the Balance Sheet?

PROBLEMS

7—28. As accountant for the Sterling Supply Co., open a controlling account in the general ledger for Accounts Receivable. Debit it for $9,574.29 which represents the total amount of accounts receivable as of February 28, 1930. Open individual accounts with customers in the accounts receivable subsidiary ledger, and record the following account balances:

Customer	Debit
W. R. Morrison	$1,687.14
D. W. Daner	349.64
E. J. Ammerman	304.02
R. V. Baugh	94.35
K. E. Murray	768.94
B. F. Little	715.18
V. T. Lange	191.15
R. E. Molloy	1,400.00
J. D. Klappert	1,715.00
A. N. Hurter	2,348.87

After opening the above accounts, post the sales invoices for the month of March, represented by the following:

	Customer	Debit
Mar. 1. 1930.	W. R. Morrison	$313.32
2.	E. J. Ammerman	295.20
2.	R. V. Baugh	50.25
5.	R. E. Molloy	761.56
8.	R. E. Molloy	226.29
8.	W. R. Morrison	76.17
10.	J. D. Klappert	43.90
12.	B. F. Little	351.15
15.	R. E. Molloy	208.20
20.	A. N. Hurter	52.50
25.	R. V. Baugh	212.23
30.	D. W. Daner	210.00
30.	K. E. Murray	39.21

After posting the sales to the individual accounts with customers, post the total to the Accounts Receivable controlling account and prove the controlling account balance.

7—29. Continuing your work as accountant for the Sterling Supply Co. record the following additional transactions in journal form, open the necessary additional general ledger accounts, post, take a Trial Balance from the general ledger and prepare a schedule of accounts receivable from the subsidiary ledger as of March 31.

Mar. 2. 1930. Received remittance from W. R. Morrison for $1,653.40 in full payment of balance due on February 28, discount 2%.

4. Received a sixty-day note from R. E. Molloy for $1,400.00 with interest at 6%, in settlement of amount due on his account.

8. Gave W. R. Morrison credit for defective goods returned amounting to $13.32.

10. Purchased a motor truck from K. E. Murray for $1,500.00 cancelling the amount due on his account as of February 28, paying cash $231.06 and giving him a sixty-day note for the balance with interest at 6%.

12. Received checks from customers as follows:

D. W. Daner	$349.64
R. V. Baugh	94.35
B. F. Little	500.00

15. V. T. Lange's account has been found to be worthless and it has been decided to charge it to the Reserve for Loss on Bad Debts.

20. R. V. Baugh returned the goods sold him on March 2, claiming that they were delayed so long in delivery that he could not use them. It has been decided to give him credit for the goods.

7—30. The Sterling Supply Co. is incorporated with an authorized capital stock of 6,000 shares of common and 4,000 shares of preferred stock, par value of each $100.00. The following capital accounts appear in the general ledger as of December 31, 1929:

Author. Cap. Stock, Common	
	$600,000

Unissued Preferred Stock	
$400,000	$300,000

Author. Cap. Stock, Preferred	
	$400,000

Subscribers to Common Stock	
$400,000	$200,000

Unissued Common Stock	
$600,000	$400,000

Subscribers to Preferred Stock	
$300,000	$150,000

Subscriptions to Common Stock	
$400,000	$400,000

Subscriptions to Preferred Stock	
$300,000	$300,000

The common stockholders' ledger shows the following certificates outstanding on December 31, 1929:

Cert. No. 101.	H. W. Chestnut	1,000	shares
" " 102.	R. G. Kremp	2,000	"
" " 103.	B. L. Cosgrove	500	"
" " 104.	D. H. Savery	400	"
" " 105.	F. C. Grow	100	"

The preferred stockholders' ledger shows the following certificates outstanding on December 31, 1929:

Cert. No. 1,	H. W. Chestnut	1,000	shares
" " 2,	B. L. Cosgrove	500	"
" " 3,	D. H. Savery	1,500	"

Study the above accounts and provide the following information:

(a) How many shares of common stock are outstanding?
(b) How many shares of preferred stock are outstanding?
(c) How many shares of common stock have been subscribed for?
(d) How many shares of preferred stock have been subscribed for?
(e) What amount has been paid in on subscriptions to common stock?
(f) What amount has been paid in on subscriptions to preferred stock?
(g) What accounts in the general ledger represent controlling accounts for the common and preferred stockholders' ledger?

7—31. Record the following corporate transactions for the Sterling Supply Co. in general journal form and post to the corporate accounts shown in the preceding problem:

Jan. 1. 1930. All previous subscribers to the common and preferred stock paid their subscriptions in full in cash.

15. H. W. Chestnut sells 500 shares of the common stock he owns to J. C. Welsh and requests the transfer of the stock on the books of the corporation.

20. D. H. Savery subscribed for 600 shares additional common stock at par.

Feb. 1. D. H. Savery settles with the corporation for his subscription to 600 shares of common stock on January 20 by transferring to the corporation title to a patent which he owns. Certificate No. 108 is issued to him.

June 30. The corporation purchases a site from J. K. Paul to be used for erecting a new building, paying for it by issuing 1,000 shares of preferred stock (Certificate No. 4) at par and cash amounting to $25,000.00.

July 15. F. C. Grow subscribed for 500 shares additional common stock at par, paying one-half in cash and giving a note for sixty days with interest at 6% for the balance. Certificate No. 109 issued to him.

CHAPTER EIGHT

INSTALLATION OF SYSTEMS

1. The System Report

- **(a) The letter of transmittal**
- **(b) An outline of the general plan of the system**
- **(c) A chart of the general ledger accounts**
- **(d) A list of the records and forms**
- **(e) A list of the mechanical devices**

2. The Manual of Operating Instructions

- **(a) The records and forms**
- **(b) The general ledger accounts**
- **(c) The working papers**
- **(d) The monthly statements**
- **(e) The annual report**

The procedure involved in the designing of an accounting system was discussed in Chapter Two. It involves the following:

(a) A preliminary study
(b) Charting the accounts
(c) Designing the records and forms

A basic investigation should be made at the beginning to obtain the information needed in designing a system. This is necessary in order that the accountant may proceed intelligently and in order that the system may be adapted to the conditions under which it will be used. After completing the preliminary study the accountant proceeds to lay out the plans for the system and to chart the accounts. Obviously the chart of accounts should be prepared before designing the records because the accounts to be kept will determine largely what records should be used and what special columns may be provided in the records for advantageous use in the recording process.

The next step is to design the records and forms. In doing this, certain definite principles of accounting and system construction should be observed. At this point it is necessary to decide what mechanical devices will be used in order that the records may be designed for use with the devices. It is also

necessary to decide what bound records, loose-leaf records, and card records will be used. Consideration must be given to the personnel of the accounting department and provision should be made for a proper internal check. Above all, the system should be practical. It is not sufficient that it may be constructed along scientific lines. Many a scientifically sound system of accounts has not proven successful because it has not been found practical in use. Perhaps this accounts for the reason that many firms have found it necessary to make frequent changes in their accounting systems. It is not uncommon to find a firm that has had several new accounting systems designed and installed over a period of a few years. Of course, growth of the business and increase in personnel of the accounting department, changes in methods of doing business, the invention of new devices, and many other factors may justify rather frequent changes in the accounting system and procedure. No firm should hesitate to take advantage of new developments and new methods if it is found that they promote efficiency and economy.

THE SYSTEM REPORT

The system report is a report which the accountant submits to his client following the designing of a system of accounts. The purpose of this report is to acquaint the management with the general plan of the system and to provide information regarding the operation of the system. The report usually consists of the following:

1. A letter of transmittal
2. An outline of the general plan of the system
3. A chart of the general ledger accounts
4. A list of the records and forms
5. A list of the mechanical devices.

As a means of illustrating a system report, a model report will be submitted. This is a report prepared for The H. H. Peck Co. The company is engaged in operating a wholesale grocery and candy manufacturing plant. An accountant has been engaged to devise and install a complete accounting system. After designing the system and having the records and forms made up ready for installation, he submits the following report to his client:

The H. H. Peck Co.
100 Dearborn St.
Chicago, Illinois

Gentlemen:

In accordance with our engagement, we have designed an accounting system which we believe will be found well adapted to the needs of your business. The records and forms have been made up and are ready for use. We recommend that you begin using the new system on December 1 and we shall be prepared to assist in its installation on that date.

We enclose a report covering the following:

(a) An outline of the general plan of the system
(b) A chart of the general ledger accounts
(c) A list of the records and forms
(d) A list of the mechanical devices.

We have also prepared a manual of operating instructions as a guide to the accounting staff in using the new system.

Should any questions arise at any time in regard to the operation of this system, we invite your consultation. We are anxious to have you obtain a maximum of results from the use of this system and will gladly cooperate with you to that end.

Respectfully,
MACKMILLER & SINGER
Per G. W. Mackmiller, C. P. A.

An Outline of the General Plan of the System. In designing this system provision has been made for the preparation of reports on a monthly basis. It is believed that these reports will prove a valuable aid to the management in controlling the operations of the business. Provision also has been made for a departmental distribution of the purchases and sales in order that the gross operating results of each department may be shown separately in the monthly reports. General and subsidiary ledgers for Accounts Receivable and Accounts Payable are provided to facilitate the work of the accounting department.

As a means of internal check and to promote efficiency in recording the operations of the business, it is recommended that the accounting department be organized with a chief accountant in charge, whose duties will be to supervise the work of the

department and to prepare the monthly reports. It is estimated that additional employees will be required as follows:

(a) A general bookkeeper who will have charge of the general journal and the general ledger. This employee will do all posting to the general ledger accounts. At the end of each month he will submit a Trial Balance to the chief accountant.

(b) An assistant bookkeeper who will have charge of the purchases and sales journals and the subsidiary ledgers for Accounts Receivable and Accounts Payable. This bookkeeper will do all posting to the subsidiary ledger accounts and at the end of each month will submit schedules of Accounts Receivable and Accounts Payable to the chief accountant.

(c) An assistant bookkeeper who will have charge of the cash and note journals and who will submit to the chief accountant a statement of cash receipts and disbursements and schedules of notes receivable and notes payable at the end of each month.

(d) A clerk who will have charge of the billing of invoices.

It is recommended that a mail clerk be instructed to prepare a list of all remittances received including all cash and cash items, such as, checks, money orders, etc. This list should be prepared in triplicate, one copy being retained by the mail clerk, one copy going to the treasurer, and one copy going to the bookkeeper in charge of the cash journals. All remittances should be referred to the treasurer with his copy of the report. The treasurer should make arrangements to have all receipts deposited and all disbursements should be made by check. All checks should be signed by the treasurer. However, they may be prepared by the bookkeeper in charge of the accounts payable ledger if desired.

A billing machine is to be used in billing all invoices, and invoice forms have been designed for machine use. A bookkeeping machine is to be used in keeping the accounts receivable and accounts payable ledgers and ledger sheets have been designed to fit the machine.

As a means of check, the chief accountant should compare the schedules of accounts receivable and accounts payable with the controlling account balances appearing on the general ledger Trial Balance taken at end of each month. The cash balance as shown by the statement of cash receipts and disbursements should also be reconciled with the monthly bank statement.

A Chart of the General Ledger Accounts.

Real Accounts

1. Assets—
   - 11 Current Assets
     - 111 Cash
     - 112 Petty Cash Fund
     - 113 Notes Receivable
       - 1103 Notes Receivable Discounted
     - 114 Protested Notes Receivable
     - 115 Accounts Receivable
       - 1105 Reserve for Doubtful Accounts
     - 118 Inventories
       - 1181 Grocery
       - 1182 Provision
       - 1183 Candy
         - 11831 Raw Material
         - 11832 Stock in Process
         - 11833 Finished Stock
     - 119 Accrued Assets
   - 12 Fixed Assets
     - 121 Office Equipment
       - 1201 Reserve for Depreciation
     - 122 Machinery and Equipment
       - 1202 Reserve for Depreciation
     - 123 Warehouse Equipment
       - 1203 Reserve for Depreciation
     - 124 Delivery Equipment
       - 1204 Reserve for Depreciation
   - 13 Deferred Charges
     - 131 Insurance
     - 132 Office Supplies
     - 133 Advertising Material
     - 134 Warehouse Supplies
     - 135 Delivery Supplies
     - 136 Organization Expense
2. Liabilities—
   - 21 Current Liabilities
     - 211 Notes Payable
     - 212 Accounts Payable
     - 213 Accrued Liabilities
3. Capital—
   - 31 Capital Stock
   - 32 Unissued Capital Stock
   - 33 Surplus

Nominal Accounts

4. Operating Income—
   - 41 Sales
     - 411 Grocery
     - 412 Provision
       - 4102 Returns and Allowances
     - 413 Candy
       - 4103 Returns and Allowances
   - 42 Cost of Candy Manufactured
     - 421 Materials
       - 4201 Materials Returns and Allowances
     - 422 Candy Freight In
     - 423 Labor
     - 424 Manufacturing Expenses
   - 43 Cost of Sales
     - 431 Grocery Purchases
     - 432 Grocery Freight-In
     - 433 Provision Purchases
       - 4303 Provision Returns and Allowances
     - 434 Provision Freight-In

5. Operating Cost—
   - 51 Insurance Expired
   - 52 Salaries in Selling Department
   - 53 Traveling Expense
   - 54 Advertising Expense
   - 55 Warehouse Expense
   - 56 Delivery Expense
   - 57 Freight-Out
   - 58 Administrative Expense
   - 59 Office Supplies Consumed
   - 60 Advertising Material Consumed
   - 61 Warehouse Supplies Consumed
   - 62 Delivery Supplies Consumed
   - 63 Loss on Bad Debts

7. Nonoperating Income—
   - 71 Interest Earned
   - 72 Purchases Discount
   - 73 Profit on Sale of Branch Store

8. Nonoperating Cost—
   - 81 Interest Cost
   - 82 Sales Discount
   - 83 Donations

A List of the Records and Forms*.

Books of Original Entry
- General Journal
- Purchases Journal
- Sales Journal
- Cash Receipts Journal
- Cash Payments Journal
- Notes Receivable Journal
- Notes Payable Journal

Books of Final Entry
- General Ledger
- Accounts Receivable Ledger
- Accounts Payable Ledger

Business Forms
- Purchase Order Form
- Sales Invoice Form

A List of the Mechanical Devices.

Billing Machine
Calculating Machine
Adding Machine
Bookkeeping Machine
Check Protector

THE MANUAL OF OPERATING INSTRUCTIONS

The purpose of this manual is to provide complete information as an aid to the accounting staff in the proper use of the records and forms. The general ledger should be opened on December 1. The general ledger accounts have been charted with a view to providing the information desired by the management. These accounts should be kept in the general ledger in the same order as they appear in the chart. The Dewey System of numbering the accounts has been used. Both the number and the title of the accounts should appear in the general ledger.

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*The records devised for The H. H. Peck Company are illustrated in Chapter Nine. The illustrations show the transactions for the month of December recorded in the books of original entry. Reference to these illustrations is advisable in connection with the study of this report.

The purpose of the numbers is to facilitate indexing the accounts and determining their classification in the monthly and annual statements. The customers' and creditors' accounts should be kept in alphabetical order in the subsidiary ledgers. These ledgers are in loose-leaf form which will facilitate the operation of a bookkeeping machine. After opening the general ledger and the subsidiary ledgers for accounts receivable and accounts payable, the new system will be ready for use, and all transactions completed after December 1 should be recorded in the proper records of original entry. Information in regard to the use of each of these records follows:

The Records and Forms

Purchases Journal. In designing the purchases journal, provision has been made for recording the following data:

Date
Purchase Number
L. F.
Account (Cr.)
Address
Terms
Accounts Payable (Cr.)
Grocery Purchases (Dr.)
Provision Purchases (Dr.)
Candy Purchases (Dr.)

All items recorded in the Accounts Payable column should be posted to the credit of the individual or firm from whom the purchase was made. The total of the Accounts Payable column should be posted to the credit of the Accounts Payable controlling account in the gneral ledger at the end of each month. The total of the Grocery Purchases, Provision Purchases, and Candy Purchases columns should be posted to the Grocery Purchases, Provision Purchases, and Candy Purchases accounts respectively in the general ledger, at the end of each month.

To prove the classification of the purchases, ascertain the sum of the footings of the Grocery, Provision, and Candy Purchases and compare this sum with the footing of the Accounts Payable column.

Sales Journal. In designing the sales journal, provision has been made for recording the following data:

Date
Sale Number
L. F.
Account (Dr.)
Address
Terms
Accounts Receivable (Dr.)
Grocery Sales (Cr.)
Provision Sales (Cr.)
Candy Sales (Cr.)

All items recorded in the Accounts Receivable column should be posted to the debit of the individual or firm to whom the sale was made. The total of the Accounts Receivable column should be posted to the debit of the Accounts Receivable controlling account in the general ledger at the end of each month. The total of the Grocery Sales, Provision Sales, and Candy Sales columns should be posted to the credit of the Grocery Sales, Provision Sales, and Candy Sales accounts respectively in the general ledger, at the end of each month.

To prove the classification of the sales, ascertain the sum of the footings of the Grocery, Provision, and Candy Sales and compare this sum with the footing of the Accounts Receivable column.

Cash Receipts Journal. In designing the cash receipts journal, provision has been made for recording the following data:

Date
L. F.
Account (Cr.)
Explanation
Accounts Receivable (Cr.)
    Net Amount
    Sales Discount (Dr.)
General (Cr.)
Grocery Sales (Cr.)
Provision Sales (Cr.)
Candy Sales (Cr.)
Merchants National Bank (Dr.)

Items recorded in the Accounts Receivable column should be posted individually to the credit of the customers' accounts in the accounts receivable subsidiary ledger. The net amount of the remittance and the discount allowed should be posted as separate items. The footings of these columns should be posted to the credit of the Accounts Receivable controlling account in the general ledger at the end of each month. The footing of the Sales Discount column should also be posted to the debit of the Sales Discount account. All items recorded in the General column should be posted individually to the credit of the proper accounts in the general ledger. The footing of this column is not posted at all. The footings of the Grocery Sales, Provision Sales, and Candy Sales columns should be posted to the credit of the Grocery Sales, Provision Sales, and Candy Sales accounts, respectively, in the general ledger at the end of each month. The net cash receipts should be posted to the debit of the Cash account in the general ledger at the end of the month. If all cash received is deposited in the bank as directed, the footing of the Merchants National Bank column will be the net cash receipts and will be the proper amount to post to the debit of the Cash account.

To prove the footings of the cash receipts journal, ascertain the amount of the net cash received as shown by the footing of the Merchants National Bank column, and compare this amount with the sum of the footings of the following columns:

Net Amount Credited to Accounts Receivable
General (Cr.)
Grocery Sales (Cr.)
Provision Sales (Cr.)
Candy Sales (Cr.)

If these two sums are not equal, it indicates an error either in recording one or more items or in footing the columns. The Sales Discount column need not be considered because the items recorded therein are both debits and credits.

Cash Payments Journal. In designing the cash payments journal, provision has been made for recording the following data:

Date
L. F.
Account (Dr.)

Check Number
Accounts Payable (Dr.)
    Net Amount
    Purchases Discount (Cr.)
General (Dr.)
Freight-In (Dr.)
Delivery Expense (Dr.)
Administrative Expense (Dr.)
Merchants National Bank (Cr.)

Items recorded in the Accounts Payable column should be recorded individually to the debit of the proper creditors' accounts in the accounts payable subsidiary ledger. The net amount of the remittances and the purchases discount received, should be posted separately. The footings of these columns should be posted to the debit of the Accounts Payable controlling account in the general ledger at the end of each month. The footing of the Purchases Discount column should also be posted to the credit of the Purchases Discount account in the general ledger. Items recorded in the general column should be posted individually to the proper accounts in the general ledger. The footing of this column is not posted at all. The footing of the Freight-In, Delivery Expense, and Administrative Expense columns should be posted to the Freight-In, Delivery Expense, and Administrative Expense accounts in the general ledger at the end of each month. The net cash payments should be posted to the credit of the Cash account in the general ledger at the end of each month, and if all payments are made by check the footing of the Merchants National Bank will be the net cash payments.

To prove the footings of the cash payments journal, ascertain the amount of the net cash payments as shown by the footing of the Merchants National Bank column and compare this amount with the sum of the footings of the following columns:

Net Amount Paid to Apply on Accounts Payable
General (Dr.)
Freight-In (Dr.)
Delivery Expense (Dr.)
Administrative Expense (Dr.)

If these sums are not equal it indicates one or more errors in recording the items or in footing the columns. The Purchases

Discount column need not be considered because the items recorded therein are both debits and credits.

Notes Receivable Journal. In designing the notes receivable journal, provision has been made for recording the following data:

Date
Number
L. F.
Account (Cr.)
Notes Receivable (Dr.)
Interest Earned (Dr. and Cr.)
Accounts Receivable (Cr.)
General Ledger (Cr.)
Maker or Drawee

This journal is to be used as a posting medium. The footing of the Notes Receivable column should be posted to the debit of the Notes Receivable account in the general ledger at the end of each month. The footings of the Interest columns, debit and credit, should be posted to the Interest Earned account in the general ledger at the end of each month. Items entered in the Accounts Receivable column should be posted to the credit of the customers' accounts in the accounts receivable subsidiary ledger. The footing of the Accounts Receivable column should be posted to the credit of the Accounts Receivable controlling account in the general ledger at the end of each month. Items entered in the General Ledger column should be posted to the credit of the proper accounts. The footing of this column is not posted.

To prove the footings of the notes receivable journal, ascertain the sum of the debit columns and compare this with the sum of the credit columns. These sums should be equal, otherwise it indicates that some error has been made in recording the items or in footing the columns.

Notes Payable Journal. In designing the notes payable journal, provision has been made for recording the following data:

Date
Number
L. F.
Account (Dr.)
Notes Payable (Cr.)

Interest Cost (Dr. and Cr.)
Accounts Payable (Dr.)
General Ledger (Dr.)
Maker or Drawee

This journal is to be used as a posting medium. The footing of the Notes Payable column should be posted to the credit of the Notes Payable account in the general ledger at the end of each month. The footings of the Interest columns, debit and credit, should be posted to the Interest Cost account in the general ledger at the end of each month. Items entered in the Accounts Payable column should be posted to the debit of the creditors' accounts in the accounts payable subsidiary ledger. The footing of the Accounts Payable column should be posted to the debit of the Accounts Payable controlling account in the general ledger at the end of each month. Items entered in the General Ledger column should be posted to the debit of the proper accounts. The footing of this column is not posted.

To prove the footings of the notes payable journal, ascertain the sum of the credit columns and compare this with the sum of the debit columns. These sums should be equal, otherwise it indicates that some error has been made in recording the items or in footing the columns.

General Journal. In designing the general journal, provision has been made for recording the following data:

L. F.
Name of Account and Explanation of Transactions
General Ledger (Dr. and Cr.)
Accounts Receivable (Dr. and Cr.)
Accounts Payable (Dr. and Cr.)

The items entered in the General Ledger columns, debit and credit, are to be posted individually to the proper accounts in the general ledger. The footings of these columns need not be posted. Items entered in the Accounts Receivable columns, debit and credit, should be posted individually to the customers' accounts in the accounts receivable subsidiary ledger. The footings of the columns should be posted to the Accounts Receivable controlling account in the general ledger at the end of each month. Items entered in the Accounts Payable columns, debit and credit, should be posted individually to the creditors' accounts in the accounts payable subsidiary ledger. The foot-

ings of these columns should be posted to the Accounts Payable controlling account in the general ledger at the end of each month.

To prove the footings of the general journal ascertain the sum of the footings of the debit columns and compare this with the sum of the footings of the credit columns. Any discrepancy will indicate errors in recording the items or in footing the columns.

The General Ledger Accounts

The chart of accounts provides a list of all the accounts to be kept in the general ledger. Additional accounts may be added as the need arises. In charting the accounts, due provision is made as may be necessary. It is not deemed necessary to set up arbitrary rules to be followed in debiting or crediting the various accounts when recording the transactions. The following theory may be applied in the recording of all transactions:

1. Increases in assets should be recorded as debits while increases in liabilities or capital should be recorded as credits.

2. Decreases in assets should be recorded as credits, while decreases in liabilities or capital should be recorded as debits. In applying this theory, remember that the capital accounts include all of the temporary proprietorship accounts covering both the expense and income accounts.

The following information, regarding a few specific accounts included in the chart, may be helpful:

Cash. This is a summary account. At the end of each month the account should be debited for the total receipts and should be credited for the total disbursements. All receipts should be deposited in the bank and all disbursements should be made by check. The balance of the Cash account should be checked with the bank statement as a means of proof. In making this check it will be necessary to take into consideration the checks in transit at the end of the month.

Petty Cash Fund. This fund is operated under the imprest system. The fund is created by writing a check payable to "Petty Cash Fund." When the check is cashed the money may be turned over to the petty cashier who is responsible for the fund and who is authorized to made disbursements from the fund for amounts not exceeding $5.00. The petty cashier should keep a record of all disbursements and should obtain

receipts or properly signed vouchers from parties to whom payments are made out of the fund. When the fund needs to be replenished the petty cashier should submit a report of expenses to the treasurer who will write a check for an amount equal to the sum of the expenses which will restore the fund to its original amount of $25.00. When this check is recorded in the cash payments journal, the proper expense accounts should be charged.

Notes Receivable Accounts. As shown by the Chart of Accounts, three different notes receivable accounts are provided. The Notes Receivable account should be debited for notes received and should be credited when the notes are paid by the maker. Notes receivable transferred before maturity should be credited to Notes Receivable Discounted. There is a contingent liability on such notes because of the required endorsement by the transferor and it is desirable to keep a record of such notes so that this contingent liability may be shown on the Balance Sheet. The account is debited only when notes transferred are paid by the maker. The proper entry to record the payment of notes is to debit Notes Receivable Discounted and credit Notes Receivable. The balance of the Notes Receivable Discounted account may be listed on the Balance Sheet as a deduction from Notes Receivable, or it may be included with the liabilities, listing it as a Contingent Liability. The account with Protested Notes Receivable should be debited for notes protested for nonpayment at maturity. The account should be credited only when such notes are paid subsequently, or when they are considered worthless and it is desired to charge them off.

Accounts Receivable. This is a summary account with trade customers. It is also known as a controlling account for the accounts receivable subsidiary ledger. It is debited for the total account sales and is credited for all amounts for which the individual customers are given credit in the subsidiary ledger. This will include cash remittances, notes receivable, discounts allowed, credits for returned goods and allowances on defective goods. The Reserve for Doubtful Accounts is credited for the amount reserved for loss on doubtful accounts and is debited for the accounts charged off. The balance of the reserve account should be treated as a deduction from the Accounts Receivable account on the Balance Sheet.

Inventories. Separate inventory accounts are provided for groceries, provisions, and candy. These accounts are debited for the physical inventories taken at the end of the year. No adjustment of the accounts is made except at the end of each year when a new inventory is taken. In order that monthly statements may be prepared without the necessity of taking physical inventories, the inventories may be estimated by using the average percentage of gross trading profit. To estimate the inventory on this basis, proceed as follows:

1. Ascertain the percentage of gross trading profit based upon sales over a period of the last five years.

2. Deduct the average gross trading profit from sales to ascertain the cost of sales.

3. Add purchases for the current period to the physical inventory taken at the end of the previous year and from the sum, deduct the cost of sales.

Fixed Assets. The fixed asset accounts consist of Office Equipment, Machinery and Equipment, Warehouse Equipment, and Delivery Equipment. Reserves for depreciation are provided for each of the equipment accounts. The balance of these reserves should be treated as a deduction from the equipment accounts on the Balance Sheet.

The depreciation should be charged as follows:

Depreciation on Machinery and Equipment to be charged to Manufacturing Expense.

Depreciation on Office Equipment to be charged to Administrative Expense.

Depreciation on Warehouse Equipment to be charged to Warehouse Expense.

Depreciation on Delivery Equipment to be charged to Delivery Expense.

Deferred Items. The deferred items may include both cost and income accounts. Those representing deferred cost consist of insurance, office supplies, advertising material, warehouse supplies, delivery supplies, and prepaid interest on notes payable. These items appear on the Balance Sheet as deferred assets. The deferred income includes the prepaid interest on notes receivable. Adjusting entries are required to record the amount to be charged to expense or to be charged to income at

the end of each month. The Organization Expense account should be written off gradually, the amount charged off each month being debited to Surplus. This should not be treated as an expense because it is not an allowable deduction from income in the Income Tax Return. The balance of the Organization Expense account represents the unamortized organization expense which should be carried as a deferred asset on the Balance Sheet.

Capital. The capital accounts consist of Capital Stock, Unissued Capital Stock and Surplus. The Capital Stock account is credited for the amount of authorized stock. The balance of the Unissued Capital Stock account represents the amount of authorized stock which has not yet been issued. The difference between the balance of the Unissued Capital Stock and the Capital Stock accounts represents the amount of stock outstanding.

Nominal Accounts. The nominal or temporary proprietorship accounts are subdivided as follows:

Operating Income
Operating Cost
Nonoperating Income
Nonoperating Cost

Separate trading accounts are provided for groceries, provisions and candy, in order that it may be possible to determine the gross profit on each.

The Working Papers

The working papers will consist of a Trial Balance, Working Sheet, and schedules of accounts receivable and accounts payable. These should be prepared at the end of each month. They are important factors in maintaining a proper check and are an aid in the preparation of the monthly statements.

The Trial Balance. A Trial Balance should be taken on the last day of each month for the purpose of proving the equilibrium of the debit and credit balances of the accounts in the general ledger. At the same time, the balances of the controlling accounts for accounts receivable and accounts payable should be proved with the schedules prepared from the individual accounts with customers and creditors in the subsidiary accounts receivable and accounts payable ledgers.

The Working Sheet. A Working Sheet should be prepared at the end of each month for the purpose of compiling and classifying the information needed in the preparation of the monthly statements. It is suggested that two Working Sheets be prepared. The purpose of the first is to provide the information needed in preparing statements. The purpose of the second is to ascertain the results of the departmental operations. In preparing the first Working Sheet, the following columnar headings may be used:

(1) Trial Balance
  (a) Debit
  (b) Credit

(2) Adjustments
  (a) Debit
  (b) Credit

(3) Adjusted Trial Balance
  (a) Debit
  (b) Credit

(4) Balance Sheet
  (a) Assets
  (b) Liabilities and Capital

(5) Profit and Loss Statement
  (a) Decreases
  (b) Increases

In preparing the second Working Sheet, the following columnar headings may be used:

(1) Adjusted Trial Balance
  (a) Debit
  (b) Credit

(2) Grocery Department
  (a) Debit
  (b) Credit

(3) Provision Department
  (a) Debit
  (b) Credit

(4) Candy Department
  (a) Debit
  (b) Credit

No additional columns will be required in preparing this Working Sheet for the monthly statements, but in preparing the Working Sheet at the end of the year, the following additional columns should be provided:

(5) Closing Entries
  (a) Debit
  (b) Credit

(6) Post-Closing Trial Balance
  (a) Debit
  (b) Credit

The Monthly Statements. After the working sheets have been prepared as directed, they will provide the information needed in preparing the monthly statements which should consist of a Balance Sheet, supported by schedules of accounts receivable and accounts payable, and a profit and loss statement, supported by schedules showing the results of departmental operations. Model statement forms accompany these instructions.

The Annual Report. The annual report will differ from the monthly statements only to the extent that it will show the results of operations over a period of twelve months, whereas the monthly statements show the results of operations over a period of only one month. It may also be advisable to prepare the Balance Sheet and Profit and Loss Statement in comparative form, so that a comparison of results over a period of five years may be exhibited. The wishes of the management should be observed in regard to this. Do not overlook the fact that the value to be derived from the operation of an accounting system is dependent upon the extent to which the information gained from the system is used as an aid to efficient management.

In drafting the adjusting, closing, and post-closing entries in journal form on December 31 preparatory to posting to the general ledger accounts, it is recommended that the following model entries be used as a guide. After closing the books for December, there should be no difficulty incurred in future closings as the procedure will be similar.

Adjusting Entries

Inventories—

Grocery Purchases	$xx,xxx.xx	
Grocery Inventory, November 31		$xx,xxx.xx
To adjust Grocery Purchases account for the purpose of arriving at the cost of groceries sold.		
Grocery Inventory, December 31	xx,xxx.xx	
Grocery Purchases		xx,xxx.xx
To record new inventory as of December 31 and to further adjust the Grocery Purchases account to arrive at cost of groceries sold.		
Provision Purchases	xx,xxx.xx	
Provision Inventory, November 30		xx,xxx.xx
To adjust Provision Purchases account for the purpose of arriving at the cost of provisions sold.		
Provision Inventory, December 31	xx,xxx.xx	
Provision Purchases		xx,xxx.xx
To record new inventory as of December 31 and the further adjust the Provision Purchases account to arrive at cost of provisions sold.		
Raw Material in Candy Department Inventory, December 31	x,xxx.xx	
Materials		x,xxx.xx
To record inventory of raw materials in candy department on December 31.		
Stock in Process in Candy Department Inventory, December 31	xxx.xx	
Cost of Candy Manufactured		xxx.xx
To record inventory of candy in process of manufacture on December 31.		
Finished Stock in Candy Department Inventory, December 31	x,xxx.xx	
Cost of Candy Sales		x,xxx.xx
To record inventory of finished candy on December 31.		

Accruals—

Accrued Interest Receivable	xx.xx	
Interest Earned		xx.xx
To record interest accrued on notes receivable.		

Interest Cost	$ xx.xx	
Accrued Interest Payable		$ xx.xx
To record interest accrued on notes payable.		
Delivery Expense	xxx.xx	
Accrued Storage Payable		xxx.xx
To record accrued storage for auto trucks for December.		

Deferred Items—

Insurance Cost	xxx.xx	
Insurance		xxx.xx
To record expired insurance.		
Insurance on Merchandise	xx.xx	
Delivery Expense	xx.xx	
Manufacturing Expense	xx.xx	
Insurance Cost		xxx.xx
To distribute expired insurance.		
Office Supplies Consumed	xx.xx	
Advertising Material Consumed	xx.xx	
Warehouse Supplies Consumed	xx.xx	
Delivery Supplies Consumed	xx.xx	
Office Supplies		xx.xx
Advertising Material		xx.xx
Warehouse Supplies		xx.xx
Delivery Supplies		xx.xx
To record deferred assets consumed during period.		
Deferred Interest Cost	x.xx	
Interest Cost		x.xx
To record prepaid interest on notes payable.		
Interest Earned	xx.xx	
Deferred Interest Income		xx.xx
To record prepaid interest on notes receivable.		
Surplus	xx.xx	
Organization Expense		xx.xx
To write off a part of organization expense.		

Reserves—

Manufacturing Expense	$ xx.xx	
Administrative Expense	x.xx	
Warehouse Expense	x.xx	
Delivery Expense	xxx.xx	
Reserve for Depreciation of Machinery and Equipment		$ xx.xx
Reserve for Depreciation of Office Equipment		x.xx
Reserve for Depreciation of Warehouse Equipment		x.xx
Reserve for Depreciation of Delivery Equipment		xxx.xx
To record depreciation of fixed assets.		
Loss on Bad Debts	xxx.xx	
Reserve for Doubtful Accounts		xxx.xx
To record addition to Reserve for Loss on Doubtful Accounts.		

Closing Entries

Materials Returns and Allowances	$ xx.xx	
Cost of Candy Manufactured	x,xxx.xx	
Materials		$ x,xxx.xx
Candy Freight In		xxx.xx
Labor		x,xxx.xx
Manufacturing Expense		xxx.xx
To close accounts entering into the cost of manufacturing candy.		
Cost of Candy Sales	x,xxx.xx	
Cost of Candy Manufactured		x,xxx.xx
To transfer the Cost of Candy Manufactured to Cost of Candy Sales.		
Candy Sales	x,xxx.xx	
Profit and Loss	xx.xx	
Candy Sales Returns and Allowances		xx.xx
Cost of Candy Sales		x,xxx.xx
To close the candy trading accounts into Profit and Loss.		
Grocery Sales	xx,xxx.xx	
Grocery Purchases (adjusted)		xx,xxx.xx
Grocery Freight-In		xxx.xx
Profit and Loss		x,xxx.xx
To close operating income accounts in Grocery Department.		

Provision Sales	$ x,xxx.xx	
Provision Purchases Returns and Allowances	xx.xx	
Provision Sales Returns and Allowances		$ xx.xx
Provision Purchases (adjusted)		x,xxx.xx
Provision Freight-In		xx.xx
Profit and Loss		x,xxx.xx
To close operating income accounts in Provision Department.		

Profit and Loss	x,xxx.xx	
Salaries in Selling Department		xxx.xx
Traveling Expenses		xxx.xx
Advertising Expenses		xxx.xx
Advertising Material Consumed		xx.xx
Warehouse Expense		xxx.xx
Warehouse Supplies Consumed		xx.xx
Delivery Expenses		xxx.xx
Delivery Supplies Consumed		xx.xx
Freight-Out		xx.xx
Insurance on Merchandise		xx.xx
Administrative Expense		x,xxx.xx
Office Supplies Consumed		xx.xx
Loss on Bad Debts		xxx.xx
To close operating cost accounts.		

Interest Earned	xx.xx	
Purchases Discount	xxx.xx	
Profit on Sale of Branch Store	x,xxx.xx	
Profit and Loss		x,xxx.xx
To close nonoperating income accounts.		

Profit and Loss	xxx.xx	
Interest Cost		xx.xx
Sales Discount		xxx.xx
Donations		xx.xx
To close nonoperating cost accounts.		

Interest Cost	x.xx	
Deferred Interest Cost		x.xx
To close the Deferred Interest Cost account.		

Profit and Loss	x,xxx.xx	
Surplus		x,xxx.xx
To close the Profit and Loss account.		

Post-Closing Entries

Interest Earned	$ xx.xx	
Accrued Interest Receivable		$ xx.xx
To close the accrued interest receivable.		
Accrued Interest Payable	xx.xx	
Accrued Storage Payable	xxx.xx	
Interest Cost		xx.xx
Delivery Expense		xxx.xx
To close the accrued liabilities.		

SUMMARY

An accountant's success in system building will depend largely upon a proper installation of the system and adequate instructions regarding the use of the system. A new system of accounting usually involves much additional work to the employees of an accounting department during the period of time in which they are becoming familiar with the new system. It is not uncommon to find that the employees resent the changes which are made in the system. This is logical, because frequently the employees themselves have designed some of the old records and forms previously used, and naturally they feel that the old forms and records are better adapted to the business than the forms and records constituting the new system.

It is human nature to want to follow the line of least resistance, hence many would rather use an old system with which they are familiar than to attempt to use a modern improved system with which they are entirely unfamiliar, regardless of the merits of the new system. Some of the employees are also likely to have the opinion that the accountant employed to design the new system knows less about the business than those who have been employed by the firm for a number of years. This may or may not be true. Nevertheless, it is a factor which has a bearing on the attitude of the employees toward the new system.

The accountant should, therefore, give very careful thought to the preparation of the system report and the manual of operating instructions. He must make sure that the employees understand the purpose and use of the newly designed records and forms. Where possible, it is advisable to keep in touch with the employees for a few days to see that they make no mistakes

in recording the transactions. An accountant who can sympathize with the employees at such a time, and who can gain their confidence, will be far more certain of success from the use of his system of accounts than would otherwise be the case. The employer, who is the accountant's client, will also appreciate the interest taken in seeing that the system is properly installed and that the employees understand how to use the new records. Consequently, the work involved in the installation of a system is just as important as the skill and knowledge used in designing the records and forms.

QUESTIONS

8—67. What is the purpose of a System Report?

8—68. When should a System Report be submitted to a client?

8—69. What is the purpose of the Manual of Operating Instructions?

8—70. In preparing a Manual of Operating Instructions, some accountants include specific rules for debiting and crediting each of the general ledger accounts. Explain whether or not this is necessary.

8—71. What is meant by using the Gross Trading Profit Test in estimating inventories and how is the test made?

8—72. Wherein does a Trial Balance differ from a Working Sheet?

8—73. Explain whether the Working Sheet should be prepared before or after preparing the Balance Sheet and the Profit and Loss Statement.

8—74. Should the adjusting entries for inventories, accruals, deferred items and reserves, be recorded before or after preparing the Working Sheet? Why?

8—75. (a) Would you advise a monthly closing of the nominal accounts when it is desired to have a Balance Sheet and Profit and Loss Statement prepared monthly?

(b) Explain how a Profit and Loss Statement may be prepared monthly without closing the nominal accounts.

PROBLEM

8—32. You have been asked to devise and install a system of accounts for The H. M. Potter Co. Before attempting the work, you obtain the following preliminary information:

The company is owned by H. M. Potter. The business consists of the purchase and sale of men's clothing. The records show that during the past year the purchases amounted to $27,596.70 and the sales amounted to $46,599.60. The proprietor is actively engaged in conducting the business. While some of his time is taken up in the administration of the business, he is able to devote about one-half of his time to selling. He employs two additional sales clerks and a delivery clerk. He owns the building in which the store is located.

An interview with Mr. Potter reveals that he desires to have his book-

THE H. M. POTTER CO.

Balance Sheet

December 31, 19..

Assets

Current Assets:			
Cash		$16,116.70	
Notes Receivable		1,918.40	
Accounts Receivable	$35,188.10		
Less Reserve for Bad Debts	335.60	34,852.50	
Inventory of Merchandise		29,090.60	
Accrued Interest Receivable		7.10	
Total Current Assets			$ 81,985.30
Fixed Assets:			
Store Property	$64,750.00		
Less Reserve for Depreciation	269.80	$64,480.20	
Store Furniture and Fixtures		2,727.10	
Office Equipment		743.70	
Delivery Equipment		3,966.70	
Total Fixed Assets			71,917.70
Deferred Charges:			
Insurance			250.35
Total Assets			$154,153.35

Liabilities

Current Liabilities:			
Notes Payable		$21,105.00	
Accounts Payable		40,956.15	
Accruals:			
Interest	$ 192.30		
Salaries and Wages	820.00		
Taxes	77.50	1,089.80	
Total Current Liabilities			$ 63,150.95
Fixed Liabilities:			
Mortgages Payable			12,500 00
Total Liabilities			$ 75,650.95

Net Worth

H. M. Potter's, Capital	78,502.40
Total Liabilities and Net Worth	$154,153.35

keeper prepare monthly statements including a Balance Sheet and Profit and Loss Statement. He wants his accounts properly classified so that he will have no trouble in preparing a statement for his banker when he needs to borrow money or in preparing his Income Tax Return at the end of the year. He claims that his present system of accounts is unsatisfactory for the reason that the bookkeeper does not seem to be able to prepare statements for him except at the end of the year when the inventory is taken and the books closed. He feels that it will be of some advantage to know the results of operations each month.

The bookkeeper has been keeping all accounts in a bound ledger. A cash book is the only other book kept and no special columns have been used. Posting is done from the cash book, purchases invoices and sales tickets, The only mechanical appliances owned by Mr. Potter consist of a cash register, a typewriter and an adding machine.

Upon request, Mr. Potter furnishes you with the accompanying Balance Sheet which was prepared at the close of the last fiscal period on December 31.

From the foregoing information you are required to:

(a) Devise the books of original entry showing the rulings and headings of the copy to be submitted to the printer.

(b) Prepare a system report embodying a letter of transmittal, an outline of the accounting system, and a chart of the general ledger accounts.

(c) Prepare a manual of operating instructions which provides detailed information regarding the recording of the transactions in the books of original entry, posting, taking a Trial Balance, preparing working papers, monthly statements and the annual report.

CHAPTER NINE

A SYSTEM FOR A WHOLESALE GROCERY

1. **Books of Original Entry**
   - (a) **Purchases journal**
   - (b) **Sales journal**
   - (c) **Cash receipts journal**
   - (d) **Cash payments journal**
   - (e) **Notes receivable journal**
   - (f) **Notes payable journal**
   - (g) **General journal**
2. **Books of Final Entry**
   - (a) **General ledger**
   - (b) **Accounts receivable ledger**
   - (c) **Accounts payable ledger**

In each of the preceding chapters, a different phase of constructive accounting has been developed. At this point, it is desired to develop a complete accountancy system applicable to a particular business. The business selected for this purpose is owned by The H. H. Peck Company, a corporation operating a wholesale grocery and candy manufacturing plant. The company has engaged Mackmiller and Singer, Certified Public Accountants, to devise and install a new accounting system. Information in regard to this system was provided in the previous chapter.

The new system was installed December 1 and the transactions for the month of December have been recorded in the books of original entry which are illustrated hereinafter. A study of these records shows that purchases and sales of groceries, provisions, and candies have been distributed on a commodity basis which facilitates the determining of the results of operations for each department. Previous to the installation of this new system, it had been the custom of the firm to close its books monthly, taking a physical inventory on the last day of each month. This had not proven satisfactory owing to the fact that too much time was required in taking the inventory. The accountants have, therefore, recommended that the inventory be estimated on a basis of the average percentage of gross trading profits. The accountants have also recommended that the

books be closed only at the end of the year on December 31, at which time a physical inventory will be taken.

The Post-Closing Trial Balance of the general ledger accounts and Schedules of Accounts Receivable and Accounts Payable as of November 30 follow, after which will be found the illustrations of the books of original entry, showing all transactions for the month of December recorded therein.

THE H. H. PECK CO.
Post-Closing Trial Balance
November 30, 19..

Cash	$ 5,959.59	
Petty Cash Fund	25.00	
Notes Receivable	4,312.80	
Notes Receivable Discounted		$ 645.35
Protested Notes Receivable	480.77	
Accounts Receivable (See Schedule 1)	14,227.21	
Reserve for Doubtful Accounts		281.78
Office Equipment	731.50	
Reserve for Depreciation of Office Equipment		49.09
Warehouse Equipment	302.50	
Reserve for Depreciation of Warehouse Equipment		17.64
Delivery Equipment	7,810.00	
Reserve for Depreciation of Delivery Equipment.		954.25
Insurance	586.66	
Office Supplies	133.82	
Advertising Material	160.38	
Warehouse Supplies	78.10	
J. C. Bell		309.98
Organization Expense	485.84	
Notes Payable		14,054.51
Accounts Payable (See Schedule 2)		18,079.23
Accrued Wages—Branch Store		148.96
Accrued Garage Expense		143.83
Capital Stock		110,000.00
Unissued Capital Stock	56,400.00	
Treasury Stock	300.00	
Surplus		10,703.91
Grocery Inventory, November 30	30,184.24	
Provision Inventory, November 30	15,577.82	
Candy Inventory, November 30	8,203.02	
Branch Store	9,710.42	
Advertising Expense		275.00
Interest Earned	18.68	4.69
Interest Cost	18.15	38.28
	$155,706.50	$155,706.50

Schedule of Accounts Receivable

C. J. Mead & Co.	$ 618.13
J. C. Bell & Co.	24.48
Miller, Loyd & Co.	172.59
Russell & Russell	107.20
Mahan Bros. & Co.	554.87
Malcolm & Watt	692.37
Miller Bros.	27.12
N. D. Pease & Son	181.36
Shirley Bros. & Co.	54.98
Aiken & Brown	761.65
Johnson & Henry	513.71
Rogers & Watt	525.90
Scruggs & Davis	663.92
Dailey & Cohen	273.48
Randal & Smith	626.99
Caldwell & Seldon	100.29
Hollingsworth & Bane	726.54
Adney & Day	664.59
H. O. Watkins & Son	806.34
Lones & Fox	140.06
Macon & Brown	289.75
Cooley & Lamb	108.52
Stubblefield & Stewart	76.29
W. R. Carter & Son	1,052.02
G. D. Mays & Bro.	154.64
A. C. Harding	264.20
D. O. Hicks	538.67
Arnold & Douglas	640.53
Steptoe & Bardsell	262.87
Mays Bros. & Mynatt	132.73
Henry Warnick & Sons	533.86
J. J. Barrow & Son	617.88
Saylor & Day	270.28
Woodward Bros & Co.	252.33
A. R. & W. G. Humphries	178.66
Cash Grocery Co.	232.52
Bates & Donohoe	384.89
	$14,227.21

Schedule of Accounts Payable

Union Match Co.	$ 863.50
E. Levering & Co.	1,917.15
American Tobacco Co.	1,411.05
Armour & Co.	148.50
Southern Manufacturing Co.	825.00
Armacost, Riley & Co.	214.78
American Sugar Refining Co.	2,349.31
National Biscuit Co.	1,770.88
Bruton & Condon	1,368.02
F. Jelke & Son Co.	650.55
American Grocery Co.	453.75
Proctor & Gamble Co.	268.95
Willard Mfg. Co.	549.45
Smith, Richardson & Conroy	935.55
Geo. Miller & Son	1,975.88
Franklin Sugar Co.	2,178.91
Lake View Creamery Co.	198.00
	$18,079.23

Purchases Journal

Date	Pur. No.	L. F.	Account Credited	Address	Terms	Accounts Payable Cr.	Grocery Purchases Dr.	Provision Purchases Dr.	Candy Purchases Dr.
192- Dec 5	57		American Sugar Ref. Co.	New York, N. Y.	Oct. 1 - 3/10, n/30	2515 52	1316 07		1199 45
	58		R. J. Reynolds Tobacco Co.	Winston, N. Car.	Sept. 1 - 2/30, n/60	780 07	780 07		
	59		Whitaker Paper Co.	City	Sept. 1 - 2/30, n/60	251 66	251 66		
	60		Royal Baking Powder Co.	New York, N. Y.	Aug. 31 - 30 days	962 50	962 50		
12	61		Bosman & Lohman Co.	Norfolk, Va.	Sept. 8 - 30 days	137 50	137 50		
	62		Swift Packing Co.	Chicago, Ill.	Sept. 11 - 2/30, n/60	1433 57		1433 57	
	63		Church & Dwight	New York, N. Y.	Oct. 1 - 3/30, n/60	60 50	60 50		
	64		Minor Canning Co.	Circleville, Ohio	Sept. 8 - 2/10, n/60	162 80	162 80		
21	65		W. H. Harrison & Co.	Cincinnati, Ohio	Oct. 1 - 2/10, n/30	454 15	454 15		
	66		E. N. & H. J. Beck	New York, N. Y.	Sept. 20 - 4/10, n/30	357 50		357 50	
	67		Arbuckle Bros.	New York, N. Y.	Sept. 17 - 2/10, n/60	2062 50	2062 50		
26	68		Sweetwater Milling Co.	Sweetwater	Sept. 22 - 5/10, n/30	544 50	544 50		
	69		American Sugar Ref. Co.	New York, N. Y.	Oct. 1 - 7/10 n/30	2515 66			2515 66
						12238 43	6732 25	1791 07	3715 11

Sales Journal

Date	Sale No.	L. F.	Account Debited	Address	Terms	Accounts Receivable Dr.	Grocery Sales Cr.	Provision Sales Cr.	Candy Sales Cr.
192- Dec 4	54		Macon & Brown	314 Market St., City	3/10, n/30	467 41	467 41		
	55		Martin & Henderson	Worcester	2/30, n/60	552 13	543 33	8 80	
	56		A. N. Bradford & Co.	Cleveland	3% T.A. 30 days	633 74	633 74		
	57		Williams Bros	Philadelphia	3/30, n/60	442 20		220 00	222 20
8	58		Nelson Bros.	London	3/10, 2/30, n/90	112 97	112 97		
12	59		Harmon Bros. & Co.	Cleveland	3/10, n/30	766 17	612 17	110 00	44 00
	60		T. L. Burns & Co	319 Wall St., City	3/10, n/30	817 01	511 76	44 00	261 25
20	61		A. N. Bradford & Co	Cleveland	3% T.A. 30 days	801 35	278 85		522 50
	62		Rogers & Watt	Newport	3/10, n/30	310 37	271 87		38 50
	63		Parker Bros. & Co.	543 Peck Ave., City	Oct. 1–3/10, n/30	3538 32	2393 44	1122 00	22 88
	64		J. C. Bell & Co.	Morristown	3/10, n/30	789 25	145 75	605 00	38 50
24	65		Rogers & Watt	Newport	3/10, n/30	980 65	279 40		701 25
	66		Maxwell & Daniels	Jackson	2% T.A. 30 days	443 23			443 23
	67		W. R. Carter & Son	481 Broad St., City	Oct. 1–3/10, n/30	4755 44	1326 87	3322 00	106 57
	68		L. Jeffries & Co.	Huntsville	C.O.D.	436 00	268 25	44 00	123 75
28	69		Boyd & Fagg	Maysville	2/30, n/60	952 88	258 50		694 38
	70		Keyhill & Gilbert	Minton Park, City	3/10, n/30	334 20	334 20		
	71		Calloway & Alley	Clayton	60 days	820 96	299 83	308 00	213 13
	72		Arnold & Douglas	Kingston	60 days	709 24	709 24		
	73		A. R. Neil & Co	136 State St., City	Oct. 1–3/10, n/30	2800 39	2426 39	374 00	
29	74		Parson Bros & Co.	Buffalo	Nov. 1–3/10, n/30	2802 25	2351 95	272 80	170 50
						24066 16	14232 92	6430 60	3602 64

Cash Receipts Journal

Date	L.F.	Account Credited	Explanation	Accts. Receivable Cr. Net Amt.	Accts. Receivable Cr. Sales Dis. Dr.	General Cr.	Grocery Sales Cr.	Provision Sales Cr.	Candy Sales Cr.	Mer. Natl. Bank Dr.
192-										
Oct		Balance								
1		Branch Store	Sold to Peoples Grocery Co.			5959 59				5959 59
1		Notes Receivable	Reed Payment			330 00				
1		Interest Earned	" " "			322 81				
1		Miller Bros	On account	27 12		1 62				
1		Caldwell & Seldon	" "	100 29						
1		Shirley Bros & Co	" "	54 98						
1		Interest Earned	Shirley Bros. & Co.			85				
3		Johnson & Kenny	Bill of Aug. 20	67 51						
3		Russell & Russell	On account	107 20						
3		Rogers & Watt	Bill of Nov. 24	513 35	12 55					
3		J. J. Barrow & Son	On account	599 35	18 53					
3		Randal & Smith	" "	440 00	12 53					
3		Aiken & Brown	" "	747 36	14 29					
3		Woodward Bros	" "	252 33						
3		Malcolm & Watt	" "	275 00						
4	*	Protested Notes Receivable	Boyd & Fagg			457 70				726 90
4		Notes Receivable Discounted	Bates & Donohoe			373 34				371 91
5		Treasury Stock	Sold to J. B. Munday			300 00				
7		A. R. & W. S. Humphries	On account	178 66						
7		C. J. Mead & Co.	" "	600 44	17 69					
7		Adney & Day	" "	652 47	12 42					
		Carried forward		4616 06	87 71	10715 91				13600 40

*Not to be posted.

Cash Receipts Journal

Date	L F	Account Credited	Explanation	Accts. Receivable Cr. Net Amt.	Accts. Receivable Cr. Sales Dis. Dr.	General Cr.	Grocery Sales Cr.	Provision Sales Cr.	Candy Sales Cr.	Mer. Natl. Bank Dr.
92-		Brot forward		4610 06	87 71	10715 91				13600 40
Dec 7		Miller, Loyd & Co	On account	151 25						
7		Sales					140 11		217 17	
7		Notes Receivable	Carr & Bunkley			256 37				2496 47
10		N. D. Rease & Son	On account	108 81						
13		W. R. Carter & Son	Bill of Oct 19	470 64	14 42					
13		Hollingsworth & Bane	On account	704 78	21 76					
13		Cash Grocery Co	" "	225 54	6 98					
13		Steptoe & Bardsell	" "	262 87						
13		D. O. Hicks	" "	110 00						
13		Sales					293 83	237 94	227 48	
13		Stubblefield & Stewart	On account	16 50						
13		Dailey & Cohen	" "	165 00						
14		Notes Receivable	Trade Acceptance #69			552 45				
14		Interest Earned				65				
14		Notes Receivable	Note #60			258 45				
14		Notes Receivable	Note #73			440 00				
14		Interest Earned				6 60				446 60
15		Notes Receivable Discounted	Note #74			2200 00				
15		Interest Earned				4 96				2204 96
15		Macon & Brown	On account	743 14	14 02					
15		Saylor & Day	" "	165 00	3 36					4543 08
17		Notes Receivable	Note #47			330 00				
		Carried forward		7739 59	148 25	14765 39	433 94	237 94	444 65	23291 51

(Second page)

Cash Receipts Journal

Date	L.F.	Account Credited	Explanation	Accts. Receivable Cr. Net Amt.	Accts. Receivable Cr. Sales Dis. Dr.	General Cr.	Grocery Sales Cr.	Provision Sales Cr.	Candy Sales Cr.	Mer. Natl. Bank Dr.
192-		Brot forward		7739 59	148 25	14765 39	433 94	237 94	4224 63	23291 31
Oct. 17		Interest Earned				10 57				
18		Notes Receivable	Note #58			64 13				64 13
18		Nelson Bros.	On account	109 58	3 39					
18		Cooley & Lamb	" "	108 52			107 25	64 30	44 94	
19		Notes Receivable Discounted	Note #68			550 00				550 00
22		Sales					434 23	299 31	275 99	
22		Notes Receivable	Horne & Goins			330 00				
22		Interest Earned				1 65				
22		Miller, Loyd & Co.	On account	21 34						
22		Interest Earned				2 16				2139 84
25		Dailey & Cohen	On account	108 48						
25		Interest Earned				1 20				
25		W. R. Carter & Son	Bill of Nov. 15	549 82	17 14					
25		Sales					261 25	130 35	231 13	
27		Stubblefield & Stewart	For Protested Check	18 15						
27		H. O. Watkins & Son	On account	239 60	14 63					
27		Malcolm & Watt	" "	417 37						
27		Interest Earned				8 00				
27		Notes Receivable	Note #74			463 83				463 83
27		L. Jeffries & Co.	Sight Draft	436 00						2401 35
28		Sales					561 18	337 36	13 26	911 80
28	*	Merchants Natl Bank	Note Discounted			2200 00				2200 00
				9748 45	183 41	18396 93	1797 85	1069 26	1009 97	32022 46
Jan 1		Balance				13165 17				13165 17

*(Not to be posted).

Cash Payments Journal

Date	L.F.	Account Debited	Check No.	Accts. Payable Dr. Net Amt.	Accts. Payable Dr. Pur. Dis. Cr.	General Dr.	Frt. In Dr.	Delivery Expense Dr.	Admin. Expense Dr.	Mer. Natl. Bank Cr.
192-										
Dec 1		Admr. Expense	#85						275 00	275 00
1		Accr. Garage Expense	#86			143 83				143 83
1		Accr. Wages. Branch Store	#87			148 96				148 96
1		Proctor & Gamble	#88	258 19	10 76					258 19
1		Lakeview Creamery Co.	#89	194 22	3 78					194 22
1		E. Levering & Co.	#90	1917 15						1917 15
1		American Tobacco Co.	#91	1072 36						1072 36
5		Freight In	#92				212 91			212 91
6		Warehouse Equipment	#93			22 00			11 27	
6		Warehouse Expense	#93			6 88				
6		Mfg. Expense	#93			31 74				
6		Advertising Expense	#93			25 85				97 74
6		J. C. Bell	#94			110 00			28	110 28
7		Insurance	#95			82 50				82 50
7		Armour & Co.	#96	145 53	2 97					145 53
7		Notes Payable	#97			3060 15				
7		Interest Cost	#97			3 03				3063 18
8		Mfg. Expense	#98			55 00				
8		Labor	#98			388 12				443 12
10		Office Equipment	#99			55 00				55 00
10		Office Supplies	#100			14 03				
10		Warehouse Supplies	#100			9 79				23 82
		Carried forward		3587 45	17 51	4156 88	212 91		286 55	8243 79

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Cash Payments Journal

Date	L.F	Account Debited	Check No.	Accts. Payable Dr. Net Amt.	Accts. Payable Dr. Pur. Dis. Cr.	General Dr.	Frt. In Dr.	Delivery Expense Dr.	Admin. Expense Dr.	Mer. Natl. Bank Cr.
192-		Brot forward.		3557 45	17 51	4156 18	212 91		286 55	8243 79
Dec 10		Donations	#101			55 00				55 00
10		Delivery Supplies	#102			44 00				44 00
10		Smith Richardson & Conroy	#103	926 19	9 36				99	927 18
10		Notes Payable	#104			401 65				401 65
10		Mfg. Expense	#105			53 08				
10		Warehouse Expense	#105			9 35				62 43
12		Freight In	#106				87 71			87 71
12		Freight Out	#107			38 31				38 31
12		Southern Mfg. Co.	#108	782 38						782 38
13		Admn. Expense	#109						11 17	11 17
13		Labor	#110			8 34				8 34
15		Salaries in Selling Dept.	#111			291 50		88 00	484 00	
15		Warehouse Expense	#111			85 25				
15		Machinery & Equipment	#111			55 00				
15		Labor	#111			370 80				1374 55
15		Income Tax Liability	#112			220 89				220 89
18		Stubblefield & Stewart	#113			18 15				18 15
18		Natl Biscuit Co.	#114	956 60	19 53					956 60
18		Minor Canning Co.	#115	159 54	3 26					159 54
19		Interest Cost	#116			2 00				2 00
19		Materials	#117			238 48				238 48
21		Freight In	#118				143 70			143 70
		Carried forward		6412 16	49 66	6048 68	444 32	88 00	782 71	13775 87

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Cash Payments Journal

Date	L.F.	Account Debited	Check No.	Accts. Payable Dr.		General Dr	Frt. In Dr.	Delivery Expense Dr.	Admin. Expense Dr.	Mer. Natl Bank Cr.
				Net Amt.	Pur. Dis Cr					
192-		Brot forward		6412 16	49 66	6048 68	444 32	88 00	782 71	13775 87
Dec.		Notes Payable	#119			1080 08				1080 08
22		Mfg. Expense	#120			55 00				
22		Labor	#120			378 40				433 40
24		Notes Payable	#121			162 64				162 64
25		Jones & Fox	#122			5 50				5 50
26		Freight In	#123				153 01			153 01
28		Interest Cost	#124			22 00				22 00
28		Insurance	#125			1100 00				1100 00
29		Warehouse Supplies	#126			49 28			27 50	76 78
29		J. C. Bell	#127			110 00				110 00
29		Advertising Expense	#128			378 75				378 75
29		Mfg. Expense	#129			165 00				165 00
29		Warehouse Expense	#130			2 75		1 65	3 69	
29		Advertising Expense	#130			1 65				
29		Interest Cost	#130			1 54				
29		Labor	#130			1 10				
29		Mfg. Expense	#130			2 20				
29		Horne & Goins	#130			1 38				15 96
29		Salaries in Selling Dept.	#131			291 50		88 00	484 00	
29		Warehouse Expense	#132			85 25				
29		Mfg. Expense	#132			55 00				
29		Labor	#132			374 55				1378 30
				6412 16	49 66	10372 25	597 33	177 65	1297 90	18857 29

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Notes Receivable Journal

Date	Our No.	L. F.	From Whom Received (Account Credited)	Face of Paper Notes Rec., Dr.	Interest Earned Dr.	Interest Earned Cr.	Accts. Rec. Cr.	Gen'l Ledger Cr.	Maker (Note) Drawee (Draft)
192- Dec 1	78		Peoples Grocery Co-Branch Store	2200 00				2200 00	Peoples Grocery Co.
4	79		Bates & Donohoe	373 34			373 34		Bates & Donohoe
11	80		A. N. Bradford & Co	614 74			614 74		A. N. Bradford & Co
25	81		A. N. Bradford & Co	777 30			777 30		A. N. Bradford & Co.
27	82		H. O. Watkins & Son	550 00	2 11		552 11		H. O. Watkins & Co
27	83		Maxwell & Daniels	453 97			453 97		Maxwell & Daniels
				4969 35	2 11		2771 46	2200 00	

Notes Payable Journal

Date	Our No.	L. F.	In Whose Favor (Account Debited)	Face of Paper Notes Pay., Cr.	Interest Cost Dr.	Interest Cost Cr.	Accts. Pay. Dr.	Gen'l Ledger Dr.	Maker (Note) Drawee (Draft)
192- Dec 1	31		Franklin Sugar Co.	2183 28	4 37		2178 91		The H. H. Peck Co
11	321		American Refining Co.	2265 49			2265 49		The H. H. Peck Co
28	33	*	Merchants Natl Bank	2200 00				2200 00	The H. H. Peck Co.
				6648 77	4 37		4444 40	2200 00	

*(Not to be posted)

GENERAL JOURNAL

L. F	Name of Account and Explanation	General Ledger Dr.	General Ledger Cr.	Accts. Receivable Dr.	Accts. Receivable Cr.	Accts. Payable Dr.	Accts. Payable Cr.
	December 1, 192–						
	Peoples Grocery Co. Stock	5500 00					
	Branch Store		5500 00				
	Received 50 shares of stock						
	to apply on sale of Branch Store						
	Branch Store	1289 58					
	Profit on sale of Branch Store		1289 58				
	To record profit on sale of						
	Branch Store						
	3						
	Grocery Inventory, Nov. 30.	8203 02					
	Candy Inventory, Nov. 30		8203 02				
	To transfer Inventory						
	3						
	Machinery and Equipment	8800 00					
	Materials	2200 00					
	Unissued Capital Stock		11000 00				
	Purchased Plant of Burliss Candy Co.						
	4						
*	Cash	257 70					
	Administrative Expense	24 09					
	Protested Notes Receivable		280 77				
	Interest Earned		1 02				
	Boyd & Fagg paid note protested						
	4						
	Sales Discount	11 55					
	Bates & Donohoe				11 55		
	Discount allowed Bates & Donohoe						
	5						
	Surplus Adjustments	34 76					
	E. K. & H. J. Peck						34 76
	To adjust error in Inv. Oct. 15						
	9						
	Surplus Adjustments	124 81					
	Delivery Expense	80					
	Randal & Smith				125 61		
	To adjust discrepancy in						
	merchandise shipped Nov. 24.						
	10						
	Freight Out	31 39					
	Candy Sales Returns and Allowances	35 20					
	Provision Sales Returns and Allowances	18 79					
	Williams Bros.				85 38		
	To record merchandise returned						
	10						
	Reserve for Doubtful Accounts	72 55					
	N. D. Rase & Son				72 55		
	To record loss on account						
	settled on basis of 60%						
	11						
	Sales Discount	91 00					
	O. N. Bradford & Co				91 00		
	To record discount allowed						
	Carried foward	26895 21	26424 38		386 16		34 76

*(Not to be posted.)

GENERAL JOURNAL

L. F	Name of Account and Explanation	General Ledger Dr.	General Ledger Cr	Accts Receivable Dr.	Accts Receivable Cr	Accts Payable Dr	Accts Payable Cr
	(Brot forward)	20698 31	26474 39		816 16		34 70
	December 11, 192-						
	American Sugar Refining Co					83 82	
	Surplus Adjustments		13 75				
	Purchases Discount		70 07				
	To record settlement of account						
	15						
	American Sugar Refining Co					17 60	
	Materials Returns and Allowances		17 60				
	Credit received for merchandise returned						
	15						
	Swift Packing Co					24 95	
	Provisions Purchases Ret and All		24 95				
	Credit received for merchandise returned						
	15						
	Surplus	883 54					
	Income Tax Liability		883 54				
	To record income tax assessed on profits of fiscal year ending Sept. 30.						
	21						
	Notes Receivable Discounted	315 35					
	Notes Receivable		315 35				
	To record payment of Notes Rec Disc						
	24						
	Notes Receivable Discounted	330 00					
	Notes Receivable		330 00				
	To record payment of Notes Rec Disc						
	25						
	Sales Discount	24 05					
	A. N Bradford & Co				24 05		
	To record discount allowed						
	27						
	Sales Discount	9 26					
	Maxwell & Daniels				9 26		
	To record discount allowed						
	28						
	Judgments	145 56					
	Lones Fox				145 56		
	Obtained judgment against Lones Fox						
	28						
	Notes Receivable Discounted	373 34					
	Notes Receivable		373 34				
	To record payment of Notes Rec Disc						
	29						
	Traveling Expense	421 25					
	J. C. Bell		421 25				
	Expense and salary for December						
	29						
	Surplus	145 89					
	Surplus Adjustments		145 89				
	To transfer surplus adjustment						
	29						
	Grocery Freight In 5%	322 56					
	Provision Freight In 11%	83 62					
	Candy Freight In 32%	191 15					
	Freight In		597 33				
	To distribute freight in						
		30140 88	30140 88		565 03	126 37	34 70

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In addition to the records illustrated herein, a petty cash book was kept by the cashier. The petty cash fund is operated on the imprest system, a fund of $20.00 being provided for that purpose. At the end of each month a check is written for the amount needed to replenish the fund. When this check is recorded in the cash payments journal, the proper expense accounts are charged for the amount paid out by the cashier during the month. Since the items recorded in the petty cash book were transferred to the cash payments book at the time the petty cash fund was replenished, it is not necessary to reproduce the petty cash book. It served as a memorandum record only.

SUMMARY

This chapter concludes the study of the principles of system building. This and each of the preceding chapters have been devoted to some special phase of the subject. It is now possible to visualize the entire procedure in system building from the beginning of the preliminary survey to the installation of the system.

In this chapter a complete system of accounts is illustrated in such a way as to show the recorded transactions by reproducing the handwriting in the books of account. It is well to make a study of the entries in each of the books and attempt to visualize the transaction. This will be a help in solving the problems which follow.

QUESTIONS

9—76. What does the absence of the folio numbers in the L. F. columns of the books of original entry indicate?

9—77. Why is it advisable to provide special columns in the purchases and sales journals for each commodity in which the firm deals?

9—78. Refer to the cash receipts journal and explain how the net cash receipts may be determined.

9—79. Refer to the cash receipts and cash payments journals and explain how the cash balance and bank balance may be determined.

9—80. Refer to the notes receivable and notes payable journals and explain why it is advisable to have debit and credit columns for interest in both journals.

9—81. In which of the journals used by The H. H. Peck Co. should each of the following types of transactions be recorded?

(a) An account purchase
(b) An account sale
(c) A cash sale

(d) A check received from a customer
(e) A note received from a customer
(f) A note given to the bank on account of a loan
(g) Payment of interest due on the note at bank
(h) Correcting entries
(i) Adjusting entries
(j) Closing entries
(k) Post-Closing entries

9—82. When books are closed monthly, is it satisfactory to use book inventories?

9—83. If the physical inventory taken at the end of the year shows a greater amount of merchandise on hand than the book inventory, what would it indicate and how should the books be adjusted?

9—84. What is the purpose of a Surplus Adjustment account and what would the balance of the account represent.

9—85. Suggest any improvement in the design of the books of original entry which may occur to you.

PROBLEMS

9—33. Acting in the capacity of chief accountant for The H. H. Peck Co. you find it necessary to take up the work of the head bookkeeper who is absent on account of illness. Upon investigation you find that all of the transactions completed during the month of December had been recorded in the books of original entry but that no posting had been done. A new system was installed on December 1 and as yet the ledger accounts have not been opened. With this information you should proceed as follows:

(a) Open the necessary accounts in the general ledger and in the subsidiary ledgers for Accounts Receivable and Accounts Payable. Arrange the accounts in the general ledger as they appear in the chart of accounts prepared by Mackmiller and Singer, the Certified Public Accountants who designed the system. (See Chapter Eight.) Allow one-third page for each account.

(b) Post the entries from the books of original entry for December. (On December 3 an entry was made in the general journal closing the Candy Inventory of November 30 into the account with the Grocery Inventory of November 30. This was done because The H. H. Peck Co. purchased the plant of the Peerless Candy Co. and it was decided to transfer the candy on hand to the Grocery Department and let that department handle it. In view of this the candy purchases for December should be charged to the Materials account, No. 425.)

(c) Take a Trial Balance of the general ledger accounts and prepare schedules of Accounts Receivable and Accounts Payable as of December 31.

9—34. Acting in the capacity of junior accountant employed by Mackmiller and Singer, Certified Public Accountants, you are assigned to assist the chief accountant of The H. H. Peck Co. in closing the books for the month

of December. Upon reporting for duty you are given a Trial Balance and schedules of Accounts Receivable and Accounts Payable prepared by the chief accountant. Before going ahead with the preparation of the reports you decide to check over the work previously done. In making this audit you find the following errors:

(a) Error of $200.00 in footing the Accounts Receivable column in the sales journal.

(b) The charge to Machinery and Equipment in the cash book, December 15 amounting to $55.00, should have been charged to Manufacturing Expense.

(c) There was a mistake in the extension of sales invoice No. 66. A correct invoice for $463.23 has been mailed to Maxwell and Daniels.

(d) Through a mistake in addition, purchases invoice No. 62 was overfooted to the extent of $30.00. A credit memorandum has been received from the Swift Packing Co. for the amount of the error.

(e) As a result of transposition of figures, the discount allowed A. N. Bradford and Co. on December 11 was recorded in the journal as $91.00 instead of $19.00.

The chief accountant also furnished you with the following inventory report which is based upon a physical inventory taken on December 31.

Grocery Inventory	$31,212.47
Provision Inventory	15,545.24
Raw Material in Candy Department	1,142.35
Stock in Process in Candy Department	156.77
Finished Stock in Candy Department	2,570.30

You find that adjustment should be made for the following accruals, deferred items and reserves:

Accruals

Interest Accrued on Notes Receivable	12.91
Interest Accrued on Notes Payable	45.67
Storage for Auto Trucks for December—Central Garage	149.35

Deferred Items

Unexpired Insurance	1,606.44
Expired Insurance to be Distributed as follows:	
On Merchandise	34.38
On Delivery Equipment	36.67
On Machinery	66.00
On Materials	25.67
Stamps, Stationery and other Office Supplies on Hand	104.17
Circulars, Booklets and other Advertising Matter on Hand	92.02
Empty Boxes, Twine and other Warehouse Supplies on Hand	47.28
Gasoline Tickets—Moore Oil Co.—on Hand	17.60
Prepaid Interest on Notes Payable	6.08
Prepaid Interest on Notes Receivable	11.40
Deferred Organization Expense	481.25

Reserves

Depreciation on Machinery and Equipment	10% per year
Depreciation on Office Equipment	5% per year
Depreciation on Warehouse Equipment	5% per year
Depreciation on Delivery Equipment	20% per year
Loss on Doubtful Accounts	1% of net sales

With this information you should proceed as follows:

(a) Draft the necessary correcting entries in journal form and post.

(b) Draft the necessary adjusting entries in journal form to record the inventories, accruals, deferred items and additions to the reserves, and post.

9—35. Continuing your work as a junior accountant you are directed to prepare Working Sheets for The H. H. Peck Co. The senior accountant instructs you to prepare two Working Sheets with the following columnar headings:

(a) First Working Sheet

1. Trial Balance (General ledger accounts after posting correcting entries.)
   (a) Debit
   (b) Credit
2. Adjustments
   (a) Debit
   (b) Credit
3. Adjusted Trial Balance
   (a) Debit
   (b) Credit
4. Balance Sheet
   (a) Assets
   (b) Liabilities and Capital
5. Profit and Loss
   (a) Decreases
   (b) Increases

(b) Second Working Sheet

1. Adjusted Trial Balance (General ledger accounts after posting adjusting entries).
   (a) Debit
   (b) Credit
2. Grocery Department
   (a) Debit
   (b) Credit
3. Provision Department
   (a) Debit
   (b) Credit

4. Candy Department
   (a) Debit
   (b) Credit
5. Closing Entries
   (a) Debit
   (b) Credit
6. Post-Closing Trial Balance
   (a) Debit
   (b) Credit

9—36. Acting in the capacity of a senior accountant employed by Mackmiller and Singer, you proceed to prepare the following financial statements for The H. H. Peck Co. obtaining the necessary information from the Working Sheets prepared by the junior accountant:

(a) Balance Sheet supported by schedules of Accounts Receivable and Accounts Payable as of December 31.

(b) Profit and Loss Statement supported by schedules showing gross operating income of Provision Department, Grocery Department, and Candy Department for the month ending December 31.

9—37. As chief accountant for The H. H. Peck Co. draft the necessary closing and post-closing entries and take the Post-Closing Trial Balance of the general ledger accounts. (Reference to the Working Sheet (b) prepared by the junior accountant will be helpful in solving this problem.)

CHAPTER TEN

A SYSTEM FOR A REALTY COMPANY

1. **The Preliminary Survey**
   - (a) **Legal organization**
   - (b) **Personnel of organization**
   - (c) **Nature of business**
   - (d) **General information**
   - (e) **Information desired by the management**

2. **Designing the Accounting System**
   - (a) **Charting the accounts**
   - (b) **Planning and designing the records**
   - (c) **Preparing the manual of operating instructions**
   - (d) **Installation of system**

It is the purpose of this chapter to develop the principles of system building and to illustrate an application of the principles to the business of a realty company. It is hoped to show that the principles of accounting and of system building do not vary regardless of their application to businesses of different types. Of course, the account titles, records, forms and reports will reflect the nature of the business, hence will vary according to the type of business and the nature of the operations.

The Mariemont Realty Company has been in existence for a period of three months, at the end of which time, Mackmiller and Singer, Certified Public Accountants, are called in to design and install a more modern system of accounting to provide for an anticipated expansion in the business. Mr. Mackmiller, the senior partner of the firm, handles this assignment personally and when he reports at the office of the realty company to begin work, he finds that the bookkeeper has recorded all of the transactions for the months of January, February, and March, and that she has taken a Trial Balance at the end of each month. These Trial Balances are shown in Illustration No. 51.

THE MARIEMONT REALTY COMPANY'S TRIAL BALANCES

Accounts	January 31, 1929		February 28, 1929		March 31, 1929	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Cash	9,222 77		11,721 76		10,118 09	
Office Equipment	800 —		800 —		800 —	
Notes Receivable	1,000 —		800 —		600 —	
Wm. Moran R. E. Contract—101 Mariemont	5,817 74		5,786 83		5,755 76	
Carl Hunt R. E. Contract—102 Mariemont	3,909 55		3,879 10		3,848 50	
John Blake R. E. Contract—103 Mariemont			7,000 —		7,000 —	
Don Adams R. E. Contract—106 Mariemont			1,000 —		965 —	
House and Lot—103 Mariemont	6,000 —		6,000 —		6,000 —	
House and Lot—104 Mariemont	6,500 —		6,500 —		6,500 —	
House and Lot—1416 E. 15th St	3,500 —		3,500 —		3,500 —	
Lot—417 West Fourth Street	1,200 —		1,200 —		1,200 —	
Lots—105–120 Mariemont	16,000 —		16,000 —		16,000 —	
Community Building Company					1,000 —	
Ray L. Anderson, Drawing	68 50			106 50		6 50
Erle B. Ingle, Drawing		4 75		149 79		255 73
Harry Wilson, Drawing		58 13		190 63		54 38
First Mortgage—Lots 105–120 Mariemont		3,000 —		2,800 —		2,600 —
First Mortgage—101 Mariemont		4,693 18		4,693 18		4,693 18
First Mortgage—102 Mariemont		4,771 61		4,771 61		4,771 61
First Mortgage—103 Mariemont		4,848 88		4,848 88		4,848 88
First Mortgage—104 Mariemont		4,925 —		4,925 —		4,925 —
Capital Stock		30,000 —		30,000 —		30,000 —
Houses Sales—Mariemont				8,500 —		8,500 —
Sales of Lots—Mariemont		1,800 —		3,300 —		3,300 —
Sales Commissions Earned		375 37		705 72		961 65

Rental Commissions Earned			37	50			65	—	78	75
Rent Income—103 Mariemont			50	—			100	—	100	—
Rent Income—104 Mariemont			55	—			110	—	165	—
Rent Income—1416 East 15th St.			30	—			60	—	90	—
Sales Commissions Paid	31	50			206	50			206	50
Taxes									642	—
Repairs to Buildings					12	40			12	40
Title and Recording Expense					12	—			12	—
Officers Salaries	160	—			320	—			480	—
Office Salaries	100	—			200	—			300	—
Office Rent	75	—			150	—			225	—
Office Supplies					21	50			21	50
Mariemont R. E. Board Membership Fees	85	—			85	—			85	—
Mariemont Mul. List. Bu. Membership Fees	100	—			100	—			100	—
Multiple Listing Fees									1	—
Organization Expense	30	—			30	—			30	—
Interest Income—Wm. Moran R. E. Contract							29	09	58	02
Interest Income—Carl Hunt R. E. Contract							19	55	38	95
Interest Income—Don Adams R. E. Contract									5	—
Interest Income—Notes Receivable							1	—	3	—
Int. Exp.—Lots 105–120 Mariemont Drive Mtg.		50			2	—			4	04
Int. Exp.—101 Mariemont Drive Mortgage	11	92			11	92			11	92
Int. Exp.—102 Mariemont Drive Mortgage	12	12			12	12			12	12
Int. Exp.—103 Mariemont Drive Mortgage	12	32			12	32			12	32
Int. Exp.—104 Mariemont Drive Mortgage	12	50			12	50			12	50
	$54,649	42	$54,649	42	$65,375	95	$65,375	95	$65,455	65

Rental Commissions Earned										
Rent Income—103 Mariemont										
Rent Income—104 Mariemont										
Rent Income—1416 East 15th St.										
Sales Commissions Paid										
Taxes										
Repairs to Buildings										
Title and Recording Expense										
Officers Salaries										
Office Salaries										
Office Rent										
Office Supplies										
Mariemont R. E. Board Membership Fees										
Mariemont Mul. List. Bu. Membership Fees										
Multiple Listing Fees										
Organization Expense										
Interest Income—Wm. Moran R. E. Contract										
Interest Income—Carl Hunt R. E. Contract										
Interest Income—Don Adams R. E. Contract										
Interest Income—Notes Receivable										
Int. Exp.—Lots 105–120 Mariemont Drive Mtg.										
Int. Exp.—101 Mariemont Drive Mortgage										
Int. Exp.—102 Mariemont Drive Mortgage										
Int. Exp.—103 Mariemont Drive Mortgage										
Int. Exp.—104 Mariemont Drive Mortgage										

(Illustration No. 51)

THE PRELIMINARY SURVEY

Mr. Mackmiller proceeded to make a survey of the operations of the firm in order that he might acquaint himself with the business and gather the information needed in designing a new accounting system. The following transcript of his notes shows what information was obtained.

Legal Organization. The Mariemont Realty Company was incorporated on January 1, 1929, under the laws of the state of Michigan. The incorporators include Ray L. Anderson, Erle B. Ingle, and H. W. French. The authorized capital stock consists of three hundred shares of common stock, par value $100.00 per share, all of which has been issued. Mr. Anderson originally subscribed for two hundred and fifty shares with the understanding that the corporation would accept his Mariemont Park property at a value of $20,000.00 to apply on his subscription. (See Mr. Anderson's Balance Sheet of December 31, 1928, and comments under General Information.) He paid the balance of $5,000.00 in cash. Mr. Ingle and Mr. French each subscribed for twenty-five shares of stock for which they paid cash.

Personnel of Organization. The minutes of the stockholders' meeting show that Mr. Ray L. Anderson was elected President, Mr. Erle B. Ingle, Vice-President and General Manager, and Mr. H. W. French, Secretary-Treasurer. Mr French receives a salary of $40.00 per week, but neither Mr. Anderson nor Mr. Ingle draw any salary. Miss Jenny Seay is employed as bookkeeper at a salary of $25.00 per week, and Mr. Harry Wilson is employed as a salesman on a commission basis.

Nature of Business. The business of the company is confined to the buying, building, renting and selling of houses and the buying and selling of lots, both for the account of the company and for its clients. The company is a member of the Mariemont Real Estate Board for which the initial membership fee was $50.00 and annual dues $35.00. The company is also a member of the Mariemont Multiple Listing Bureau for which the initial membership fee was $100.00. All members of the Mariemont Real Estate Board must abide by the uniform commission rates which are 3½% on the sales price of residential property and one-half of one month's rent on rentals of resi-

dential property. All members of the Mariemont Multiple Listing Bureau are required to abide by the following rules:

1. That all property except original sales of sub-divisions, farm property, and industrial property must be listed with the bureau unless the owner demands exclusive service from the listing realtor.

2. That on a sale of listed property by the listing office, 2½% of the gross commission is payable as a tax to the bureau.

3. That on a sale of listed property by an office other than the listing office, 5% of the gross commission is payable to the bureau, and by the listing office.

4. That on a sale as in (3), two-thirds of the gross commission goes to the selling office and one-third to the listing office.

5. That as between the salesman and his office, sales commissions, after paying the tax, are to be divided equally.

6. That rental commissions are to be one-half of one month's rent and are to be divided equally between the salesman and his office.

7. A fee of fifty cents is charged for listing each property with the bureau.

General Information. The Balance Sheet of Mr. Ray L. Anderson which appears in Illustration No. 52 shows the value placed upon his Mariemont Park property which he turned over to the company in partial payment of his subscription for two hundred and fifty shares of the capital stock. This property consists of a sub-division which Mr. Anderson had developed previous to the organization of The Mariemont Realty Company on January 1. The sub-division contains twenty lots, ten on each side of Mariemont Drive, the main thoroughfare of the property. The odd numbered lots are located on the east side of Mariemont Drive beginning with No. 101. The even numbered lots are located on the west side of the Drive, beginning with No. 102. During the year 1928 Mr. Anderson had constructed four houses on lots Nos. 101, 102, 103 and 104, respectively. These houses were constructed for him by the Community Building Company.

Mr. Anderson sold the house which he built on the lot located at 101 Mariemont Drive on July 1, 1928, to William

RAY L. ANDERSON

Balance Sheet, December 31, 1928

Assets

Wm. Moran Real Estate Contract—101 Mariemont Drive	$ 5,848.50
Carl Hunt Real Estate Contract—102 Mariemont Drive	3,939.85
House and Lot—103 Mariemont Drive	6,000.00
House and Lot—104 Mariemont Drive	6,500.00
House and Lot—1416 East 15th Street	3,500.00
Lot—417 West Fourth Street	1,200.00
Lots Only—105–120 (16) Mariemont Drive	16,000.00
Accrued Interest Receivable—Real Estate Contracts	48.94
Community Building Company	48.52
Total Assets	$43,085.81

Liabilities

First Mortgage—Lots 105–120 Mariemont Drive	$ 3,200.00
First Mortgage—101 Mariemont Drive	4,771.61
First Mortgage—102 Mariemont Drive	4,848.88
First Mortgage—103 Mariemont Drive	4,925.00
First Mortgage—104 Mariemont Drive	5,000.00
Accrued Mortgage Interest Payable	340.32
	$23,085.81

Capital

Ray L. Anderson, Net Worth	$20,000.00

(Illustration No. 52)

Moran and his wife Helen for $8,000.00. He accepted as part payment thereon a lot located at 417 West Fourth Street at an agreed valuation of $1,200.00. Of the balance, Mr. Moran paid $800.00 in cash and signed a 6% real estate contract for $6,000.00. According to the terms of the contract, Mr. Moran is to pay $60.00 per month to be applied first on the accrued interest and the balance on the principal. Following is a schedule of the payments received up to December 31, 1928:

Date	Interest	Principal	Balance
July 1, 1928	.....	.....	$6,000.00
August 1, 1928	$30.00	$30.00	5,970.00
September 1, 1928	29.85	30.15	5,939.85
October 1, 1928	29.70	30.30	5,909.55
November 1, 1928	29.55	30.45	5,879.10
December 1, 1928	29.40	30.60	5,848.50

This real estate contract appears on Mr. Anderson's Balance Sheet as follows: "William Moran Real Estate Contract—101 Mariemont Drive, $5,848.50." The interest accrued on this contract to December 31 amounted to $29.24 which amount is included in the item "Accrued Interest Receivable—Real Estate Contract, $48.94.". The lot obtained from Mr. Moran appears on Mr. Anderson's Balance Sheet as "Lot 417 West Fourth Street, $1,200.00."

Mr. Anderson sold the house which he built on the lot located at 102 Mariemont Drive on October 1, 1928, for $7,500.00 to Mr. Carl Hunt and his wife Bess. In connection with this deal, Mr. Anderson accepted a house and lot located at 1416 East 15th Street at a valuation of $3,500.00. The balance due on the property is represented by a 6% real estate contract for $4,000.00, on which payments are to be made at the rate of $50.00 per month, applying first to the accrued interest and the balance on the principal.

Following is a schedule of the payments received up to December 31, 1928:

Date	Interest	Principal	Balance
October 1, 1928	.....	.....	$4,000.00
November 1, 1928	$20.00	$30.00	3,970.00
December 1, 1928	19.85	30.15	3,939.85

This real estate contract appears on Mr. Anderson's Balance Sheet as follows: "Carl Hunt Real Estate Contract—102 Mariemont Drive, $3,939.85." The interest accrued on this contract to December 31 amounted to $19.70 which amount is included in the item "Accrued Interest Receivable—Real Estate Contract, $48.94." The house and lot obtained from Mr. Hunt appears on Mr. Anderson's Balance Sheet as "House and Lot—1416 East 15th Street, $3,500.00."

The house which Mr. Anderson built on the lot which is located at 103 Mariemont Drive appears on the Balance Sheet as follows: "House and Lot—103 Mariemont Drive, $6,000.00." This property is rented to Mr. Ben Walsh at $50.00 per month, payable in advance on the first of each month.

The house which Mr. Anderson built on the lot located at 104 Mariemont Drive appears on the Balance Sheet as follows: "House and Lot—104 Mariemont Drive, $6,500.00." This property is rented to Mrs. Emma King at $55.00 per month, payable in advance on the fifth of each month.

The house located at 1416 East 15th Street, is rented to Mr. Henry Wade at $30.00 per month payable in advance on the first of each month.

The remaining lots in the Mariemont Park sub-division are valued at $1,000.00 each and appear on the Balance Sheet as follows: "Lots Only—105–120 Mariemont Drive, $16,000.00." The amount due from the Community Building Company represents credit received for unused materials.

The property which Mr. Anderson owned is subject to five separate mortgages. One of these mortgages originally amounted to $4,000.00 and was secured by the twenty lots in the Mariemont Park sub-division. This is a 6% mortgage held by the Peoples Savings Bank, interest payable semi-annually, January 1 and July 1. It contains a provision that as houses are built on the lots a pro rata amount of the mortgage must be paid. In accrodance with this provision, $200.00 of the principal was paid as each of the four houses were built. Therefore, the balance of the mortgage on December 31 amounted to $3,200.00 and it is secured by the remaining sixteen lots in the subdivision. The interest accrued on December 31 is included in the item "Accrued Mortgage Interest Payable, $340.32."

As the houses were built on the four lots in the subdivision, mortgages were placed on each for $5,000.00 payable to the Community Building Company. These four mortgages bear interest at 6% and provide for a payment of $150.00 quarterly to be applied first on the accrued interest and the balance on the principal.

Following is a schedule of payments made on each mortgage up to December 31, 1928:

First Mortgage—101 Mariemont Drive

Date	Interest	Principal	Balance
January 15, 1928	.....	.....	$5,000.00
April 15, 1928	$75.00	$75.00	4,925.00
July 15, 1928	73.88	76.12	4,848.88
October 15, 1928	72.73	77.27	4,771.61

First Mortgage—102 Mariemont Drive

Date	Interest	Principal	Balance
April 15, 1928	.....	.....	$5,000.00
July 15, 1928	$75.00	$75.00	4,925.00
October 15, 1928	73.88	76.12	4,848.88

First Mortgage—103 Mariemont Drive

Date	Interest	Principal	Balance
July 15, 1928.....	.....	.....	$5,000.00
October 15, 1928.....	$75.00	$75.00	4,925.00

First Mortgage—104 Mariemont Drive

Date	Interest	Principal	Balance
October 15, 1928.....	.....	.....	$5,000.00

It will be noted that these mortgages are listed separately on Mr. Anderson's Balance Sheet. The interest accrued on each mortgage to December 31, 1928, is included in the item "Accrued Mortgage Interest Payable, $340.32."

In recording the first three months' operations of the company, the bookkeeper has used an ordinary general journal, cash receipts journal and cash disbursements journal with no special columns. The Trial Balances show what accounts were kept in the general ledger. There was some unnecessary work involved in recording certain types of transactions in both the general journal and cash journals. It also appears that considerable unnecessary work was involved in keeping separate accounts in the general ledger for each property, the mortgage on each property, the rent income, and the interest payments on mortgages.

Information Desired by the Management. The management is interested in having a modern system of accounting installed which will provide accurate information regarding income and expenses. At the same time it is not desired to have a complicated system installed. Miss Seay will be required to keep all of the records and prepare the necessary reports. She has studied accounting and has had some experience in keeping the records for another realty firm, hence she is apparently well qualified for keeping the records of the company.

Mr. Anderson also has some knowledge of accounting and he expresses a desire to have a Balance Sheet and Profit and Loss statement made up quarterly, but does not think that it will be necessary to close the books more often than once a year, that is, on December 31. He insists that the system should be sufficiently simple that Miss Seay will not only be able to keep the records but will be able to prepare a Trial Balance at the end of each month, prepare a Balance Sheet and Profit and Loss Statement at the end of each quarter, and prepare statements including an income tax return at the end of the year.

DESIGNING THE ACCOUNTING SYSTEM

Charting the Accounts. Mr. Mackmiller first prepared a chart of the general ledger accounts as follows:

CHART OF ACCOUNTS

1 Assets
- 11 Current assets
  - 111 Cash
  - 112 Notes Receivable
  - 113 Accrued Interest Receivable—Real Estate Contracts
  - 114 Accrued Rent Receivable
- 12 Fixed assets
  - 121 Office Equipment
    - 1201 Reserve for Depreciation
  - 122 Real Estate Contracts Receivable
  - 123 Real Estate Holdings
    - 1203 Reserve for Depreciation
- 13 Deferred expenses
  - 131 Deferred Real Estate Board Membership Fees
  - 132 Deferred Multiple Listing Bureau Fees
  - 133 Deferred Organization Expenses
  - 134 Deferred Insurance

2. Liabilities
- 21 Current liabilities
  - 211 Accounts Payable
    - 2111 Community Building Company
    - 2112 Mariemont Multiple Listing Bureau
  - 212 Salesmen's Drawing Accounts
    - 2121 Ray L. Anderson, Drawing
    - 2122 Erle B. Ingle, Drawing
    - 2123 Harry Wilson, Drawing
  - 213 Accrued Interest Payable—Mortgages
  - 214 Accrued Taxes Payable
- 22 Fixed Liabilities
  - 221 Mortgages Payable
- 23 Deferred liabilities
  - 231 Deferred Rent Income

3. Capital
- 31 Investment
  - 311 Capital Stock
- 32 Summary
  - 321 Profit and Loss
  - 322 Surplus

4. Income
- 41 Profit on Real Estate Sales
- 42 Brokerage Income
  - 421 Sales Brokerage
  - 422 Sales Commissions Earned

423 Rental Brokerage
424 Rental Commissions Earned
43 Rent Income
44 Interest Income
441 Real Estate Contracts
442 Notes Receivable
5. Expense
51 Real Estate Upkeep Cost
511 Repairs
512 Taxes
513 Insurance
514 Depreciation
52 Selling Expense
521 Sales Commissions Incurred
522 Rental Commissions Incurred
523 Advertising
53 Management Expense
531 Officers' Salaries
532 Office Salaries
533 Office Rent
534 Office Supplies
535 Mariemont Real Estate Board Membership Fees
536 Mariemont Multiple Listing Bureau Membership Fees
537 Multiple Listing Fees
538 Organization Expense
54 Interest Expense
541 Interest on Mortgages Payable

Planning and Designing the Records. After preparing a chart of accounts, Mr. Mackmiller proceeded to design the books of account. He concludes that too much work has been involved in using a general journal, cash receipts journal and cash disbursements journal as heretofore, and that these records do not provide sufficient analytical information. He therefore decides upon the use of the following records in the future:

General Journal
Cash Journal
General Ledger
Real Estate Register
Real Estate Contract Register

The general journal and cash journal are the only books of original entry. All transactions will be recorded in these two books which will constitute the only posting mediums. The real estate and real estate contract registers are similar to subsidiary ledgers, hence cannot be considered as books of original

entry. In reality, each register is a combination of subsidiary ledger and auxiliary record.

General Journal. An ordinary bound journal is to be used for this record. All corporate transactions, correcting, adjusting, closing and post-closing entries are to be recorded therein. All other transactions are to be recorded in the cash journal.

Cash Journal. A specially designed loose-leaf record is to be used as a cash journal. The form designed by Mr. Mackmiller is shown in Illustration No. 53. This journal consolidates in a single record, the three records previously kept, consisting of a general journal, cash receipts journal and cash disbursements journal. It also provides a better internal check because of the self-proving feature. A continuous proof is maintained because of the equality of the debit and credit footings. By maintaining a constant proof, there will be little danger of trouble in getting a Trial Balance at the end of the month. The use of this form of cash journal makes possible a classification and summarization of the data which was not possible with the old records.

General Ledger. An ordinary stock loose-leaf ledger is to be used as a general ledger. Accounts will be kept therein in accordance with the chart of accounts prepared by Mr. Mackmiller.

The account with Reat Estate Contracts Receivable, No. 122, is a summary account. A detailed record of each real estate contract will be kept in the real estate contract register. The account with Real Estate Holdings, No. 123, is a summary account which will be supplemented by the information recorded in the real estate register. In other words, a detailed record of each property will be kept in the real estate register, while a record of the total property owned is provided by the summary account.

The account with Rent Income, No. 43, is a summary account which is supplemented by a detailed record of the rent income on each property owned, kept in the real estate register.

The account with Interest on Real Estate Contracts, No. 441, is a summary account which is supplemented by a detailed record of interest income on each property, kept in the real estate contract register.

CASH JOURNAL

DATE	F.	ACCOUNT	CASH			GENERAL LEDGER		REAL ESTATE CONTRACTS		
			Receipts	Payments				Principal		Interest
			(Dr.)	Chk. No.	Amount (Cr.)	(Dr.)	(Cr.)	(Dr.)	(Cr.)	(Cr.)

(Left-hand Page)

CASH JOURNAL

REAL ESTATE HOLDINGS				SALES BROKERAGE		RENTAL BROKERAGE		EXPLANATION
Property		Profit on Sales	Rent					
(Dr.)	(Cr.)	(Cr.)	(Cr.)	(Dr.)	(Cr.)	(Dr.)	(Cr.)	

(Right-hand Page)

(Illustration No. 53)

The Sales Brokerage account, No. 421, and the Rental Brokerage account, No. 423, are clearing accounts. The Sales Brokerage account is credited for the entire amount collected at the time of a sale of property. The Rental Brokerage account is credited for the entire amount of the rent collected on property rented for clients. These accounts balance as soon as a distribution is made of the amount collected. The real estate company's share of the commission on the sale is then credited to Sales Commissions Earned, while the company's share of the commission on rentals is credited to Rental Commissions Earned.

Real Estate Contract Register. A specially designed loose-leaf record is to be used in keeping a record of real estate contracts receivable. The form designed for this register is shown in Illustration No. 54. It will be noted that the real estate contract of William Moran is shown recorded in the illustration. The record of payments is continued on the reverse side of the sheet so as to permit of the recording of payments received over a long period of time. Additional sheets ruled to record payments only, may be inserted in the binder if necessary. It will be noted that each payment is analyzed so as to record separately the amount applicable to principal and interest. The balance due on the contract is recorded at the time the payment is recorded so that the record always shows the balance due on each contract.

Real Estate Register. A specially designed loose-leaf record is to be used in keeping a record of the real estate owned by the company. A record is to be kept of each individual lot, house and lot, or other property which the company may own or acquire, and which may be subsequently rented or sold. A continuous record of the property owned is kept until such time as it may be sold, when the real estate account is closed. If the property is sold on a contract, a record is then kept in the real estate contract register. The particular form designed for the real estate register is shown in Illustration No. 55. House and lot, No. 103, is shown recorded in the illustration. It will be seen that a detailed record is kept of each piece of property, showing the original cost, the cost of improvements, cost of upkeep, interest paid on mortgage, and rent income. The reverse side of the sheet is ruled to provide for a continuous record of the cost and income.

REAL ESTATE CONTRACT REGISTER

Account No. *1211*

To Whom Sold *William Moran*

Address *101 Mariemont Drive*

Date of Sale *July 1, 1928*

Description of Property *101 Mariemont Drive*

Total Sales Price *$8,000.00*

Amount of Down Payment *$2,000.00*

Balance Due on Contract *$6,000.00*

Amount of Monthly Payment *$60.00*

Monthly Payment Due on *1st*

Remarks: *6% Contract*

RECORD OF PAYMENTS

Date	Amount	Applicable to Interest	Applicable to Principal	Balance Due on Principal
1928				
July 1				*6,000 —*
Aug. 1	*60 —*	*30 —*	*30 —*	*5,970 —*
Sept. 1	*60 —*	*29 85*	*30 15*	*5,939 85*
Oct. 1	*60 —*	*29 70*	*30 30*	*5,909 55*
Nov. 1	*60 —*	*29 55*	*30 45*	*5,879 10*
Dec. 1	*60 —*	*29 40*	*30 60*	*5,848 50*
1929				
Jan. 1	*60 —*	*29 24*	*30 76*	*5,817 74*
Feb. 1	*60 —*	*29 09*	*30 91*	*5,786 83*
Mar. 1	*60 —*	*28 93*	*31 07*	*5,755 76*

(Illustration No. 54)

REAL ESTATE REGISTER

Account No. *1221* Description of Property *103 Mariemont Drive*

Mortgage *$5,000* Date Issued *7/15/28.* Date of Maturity _____ Int. Rate *6%* Int. Payable *Quarterly*

Date		Original Cost	Cost of Improvements	COST OF UPKEEP				Interest on Mortgage	Rent Income
				Repairs	Taxes	Insurance	Depr.		
1928									
July	*15*	*6,000 —*							
1929									
Jan.	*2*								
Feb.	*1*								*50 —*
	28	*Sold to*	*John Blake*	*for $8,500.00*					*50 —*

(Illustration No. 55)

Preparing the Manual of Operating Instructions. After charting the accounts and designing the records to be used, Mr. Mackmiller prepared a manual of operating insturctions for the guidance of the bookkeeper in opening the new books, in recording the transactions and in preparing quarterly and annual reports for the management. It does not seem advisable to reproduce this manual of operating instructions here, since a similar manual was developed and explained in Chapter Eight.

Installation of System. As a guide to the bookkeeper in opening the new general ledger, Mr. Mackmiller prepared a schedule of account balances to be transferred to the new ledger. Before opening the new ledger the bookkeeper was instructed to close the old ledger as of March 31, 1929, so that it would not be necessary to carry over into the new ledger the nominal account balances. This procedure was advisable in view of the changes made in the chart of accounts. In preparing the schedule of accounts, it was necessary to make adjustments because of the elimination of the individual accounts for real estate con-

SCHEDULE OF GENERAL LEDGER ACCOUNTS

April 1, 1929

111	Cash	$10,118.09	
112	Notes Receivable	600.00	
121	Office Equipment	800.00	
1201	Reserve for Depreciation of Office Equip		40.00
122	Real Estate Contracts Receivable	17,569.26	
123	Real Estate Holdings	25,200.00	
1203	Reserve for Depreciation of Houses		50.00
2111	Community Building Co	1,000.00	
2121	Ray L. Anderson, Drawing		$ 6.50
2122	Erle B. Ingle, Drawing		255.73
2123	Harry Wilson, Drawing		54.38
221	Mortgages Payable		21,838.67
311	Capital Stock		30,000.00
113	Accrued Int. Rec.—Real Estate Contracts	83.02	
231	Deferred Rent Income		9.17
213	Accrued Int. Pay.—Mortgages		279.48
131	Deferred Real Estate Bd. Membership Fees	63.75	
132	Deferred Multiple Listing Bureau Fees	75.00	
133	Deferred Organization Expenses	22.50	
322	Surplus		2,997.69
		$55,531.62	$55,531.62

tracts receivable, real estate holdings, mortgages payable, rent income and interest income, from the general ledger. It will be noted that summary accounts take the place of the individual accounts previously kept for each property. The entry to transfer the general ledger accounts to the new ledger should be made in the new general journal.

The real estate contracts receivable should be recorded in the real estate contract register. Following is a list of these contracts held on March 31, 1929, with the data to be recorded in the register:

William Moran Real Estate Contract, 101 Mariemont Drive. Dated July 1, 1928, principal $6,000.00, interest 6%, monthly payments $60.00, payable on the first of each month.

Carl Hunt Real Estate Contract, 102 Mariemont Drive. Dated October 1, 1928, principal $4,000.00, interest 6%, monthly payments $50.00, payable on the first of each month.

Don Adams Real Estate Contract, 106 Mariemont Drive. Dated February 15, 1929, principal $1,000.00, interest 6%, monthly payments $40.00, payable on the fifteenth of each month.

John Blake Real Estate Contract, 103 Mariemont Drive. Dated February 28, 1929, principal $7,000.00, interest 6%, monthly payments $70.00, payable on the first of each month.

All property owned, consisting of lots or houses and lots, should be recorded in the real estate register. Following is a list of the property owned on March 31, 1929, with the data to be recorded in the register:

House and Lot, 104 Mariemont Drive. House built October 15, 1928, cost of house and lot $6,500.00, mortgage on property $5,000.00, dated October 15, 1928, interest 6%, payable quarterly. This property is rented for $55.00 per month.

House and Lot, 1416 East 15th Street. Purchased October 1, 1928, for $3,500.00. No mortgage. This property is rented for $30.00 per month.

Lot, 417 West Fourth Street. Purchased July 1, 1928, for $1,200.00. No mortgage.

Lots 105, 107, 108, 109, 110, 111, 112, 113, 114, 115, 116, 117, 118, and 119 cost $1,000.00 each. Security on mortgage for $2,800.00, apportioned on a basis of $200.00 per lot. Interest 6% payable semi-annually, January 1 and July 1.

The Notes Receivable amounting to $600.00 consist of three notes for $200.00 each which were received from Virgil Bronson on January 16 in part payment of Lot No. 120 Mariemont Drive which was sold to him on that date. These notes mature on April 15, May 15 and June 15 respectively, with interest at 6%. It is suggested that these notes be recorded separately in the Notes Receivable account.

SUMMARY

In this chapter the work of an accountant engaged in designing and installing a system of accounts for a realty company has been developed from step to step. The object has been to indicate clearly the procedure involved in system work and to provide sufficient information regarding the business for which a system was devised, to enable the pupil to fully comprehend the work involved. The questions and problems which follow will provide a thorough test of the pupil's understanding of this work and of his ability to apply the knowledge gained.

This chapter completes the study of constructive accounting. No attempt has been made to exhaust the subject, but rather to develop those fundamental principles underlying system building. The project following this chapter provides for an application of the principles. In the preceding discussion the procedure involved in constructing a system of accounts has been developed. The completion of the project involves the use of the system and provides an opportunity for observing the results to be obtained from its use.

QUESTIONS

10—86. Referring to the accounting system designed for The Mariemont Realty Co. state the function of the Real Estate Contracts Receivable account, No. 122, and explain how the balance of the account may be proved.

10—87. State the function of the Real Estate Holdings account, No. 123, and explain how the balance of this account may be proved.

10—88. Explain the function of the Rent Income account, No. 43, and state how the balance of the account may be proved.

10—89. State the function of the Interest Income on Real Estate Contracts account, No. 441, and explain how the account balance may be proved.

10—90. By referring to the cash journal shown in Illustration No. 53 it will be noted that special columns are provided for Real Estate Holdings as follows:

Property, Dr. and Cr.
Profit on Sales, Cr.
Rent, Cr.

Explain how the footings of these columns should be posted and state what the balance of the accounts represent after all posting has been completed.

10—91. On January 5, 1929, Harry Wilson, a salesman for The Mariemont Realty Co., reported the renting of the house owned by Louis Webb for $50.00 per month, and the receipt of a check from Mr. Webb for $25.00 in payment of the commission on the rental. The bookkeeper recorded the transaction as follows:

Cash Receipts Journal:

Cash	$25.00	
Rental Brokerage		$25.00

General Journal:

Rental Brokerage	$25.00	
Rental Commissions Earned		$12.50
Harry Wilson, Drawing		12.50

(a) State the advantages obtained in recording this transaction in the cash journal designed by Mr. Mackmiller.

(b) On what basis was the amount of The Mariemont Realty Company's share of the commission determined?

(c) On what basis was the amount of Harry Wilson's share of the commission determined?

10—92. On January 10 a house owned by Edward Stanley which was listed with The Mariemont Realty Co. was sold by Erle B. Ingle to Ralph Kinley for $12,000.00. A down payment of $2,000.00 was received by Mr. Ingle. This transaction was recorded by the bookkeeper as follows:

Cash Receipts Journal:

Cash	$2,000.00	
Sales Brokerage		$2,000.00

General Journal:

Sales Brokerage	$2,000.00	
Sales Commissions Earned		$ 204.75
Erle B. Ingle, Drawing		204.75
Mariemont Multiple Listing Bureau		10.50
Edward Stanley		1,580.00

Explain the basis upon which the amount of the down payment was distributed.

10—93. On January 16, Ray L. Anderson reported the sale of lot No. 120 Mariemont Drive to Virgil Bronson and his wife Clara for $1,800.00, terms $800.00 cash and five notes for $200.00 each, dated January 16, 1929, maturing in one, two, three, four and five months respectively, with interest at 6%. The bookkeeper recorded this transaction as follows:

Cash Receipts Journal:

Cash	$ 800.00	
Sales of Lots		$ 800.00

General Journal:

Cash	$ 800.00	
Notes Receivable	1,000.00	
Sales of Lots		1,800.00

Explain how these entries should be posted.

10—94. Compute the amount of Mr. Anderson's commission on the sale of lot No. 120 referred to in Problem 10—93, and draft a journal entry to record the commission assuming that Mr. Anderson does not withdraw the cash at the time of the sale. Inasmuch as lot No. 120 which was sold to Virgil Bronson was included in the lots given as security on a mortgage, the company must pay $200.00 on the principal of the mortgage in order to have it released so that a clear title may be transferred to Mr. Bronson. Draft a journal entry to record the payment of $200.00 on the principal of the mortgage and 50¢ interest accumulated since January 1.

10—95. (a) Compare the cash journal designed by Mr. Mackmiller for The Mariemont Realty Co. with the books of original entry previously used and explain its advantages.

(b) What advantages will be derived from the use of the real estate register and real estate contract register designed by Mr. Mackmiller?

PROBLEMS

10—38. Draft adjusting entries for The Mariemont Realty Co. to record the following accruals and deferred items as of March 31, 1929:

Accruals:

Interest accrued on real estate contracts receivable:

William Moran Real Estate Contract	$28.78
Carl Hunt Real Estate Contract	19.24
John Blake Real Estate Contract	35.00

Interest accrued on mortgages payable:

Lots 105–120 Mariemont Drive (3 mos.)	$39.00
101 Mariemont Drive (2½ mos.)	58.66
102 Mariemont Drive (2½ mos.)	59.65
103 Mariemont Drive (2½ mos.)	60.61
104 Mariemont Drive (2½ mos.)	61.56

Deferred Items:

Three-fourths of real estate board membership fee	$63.75
Three-fourths of multiple listing bureau membership fee	75.00
Three-fourths of organization expense	22.50
Rent collected in advance on No. 104 Mariemont Drive (5 days)	9.17

Depreciation:

Office Equipment	20% per year.
House, 104 Mariemont Drive	2% per year.
House, 1416 E. 15th St.	2% per year.

Also draft an entry to transfer the cost of house and lot, No. 103 Mariemont Drive, Lot No. 107 Mariemont Drive and Lot No. 120 Mariemont Drive to the proper sales accounts. (Debit Houses Sales—Mariemont Drive, and credit House and Lot, 103 Mariemont Drive, for the cost price of the property sold during the period. Debit Sales of Lots—Mariemont Drive and credit Lots 105–120 Mariemont Drive for the cost of lots 107 and 120 which were sold during the period. This will close the accounts representing property sold during the period and will transfer the cost of such property to the debit side of the Sales account so that the balance of the Sales account will represent the gross profit on property sales.)

10—39. Prepare a Working Sheet for The Mariemont Realty Co. as of March 31, 1929, providing columnar headings as follows:

Trail Balance
- Debit
- Credit

Adjustments
- Debit
- Credit

Adjusted Trial Balance
- Debit
- Credit

Balance Sheet
- Assets
- Liabilities and Capital

Profit and Loss
- Decreases
- Increases

Post-Closing Trial Balance
- Debit
- Credit

10—40. Prepare a Balance Sheet and Profit and Loss Statement for The Mariemont Realty Co. as of March 31, 1929. Draft journal entries to close the nominal accounts into Profit and Loss.

10—41. Prepare a manual of operating instructions for The Mariemont Realty Co. as you think it should have been prepared by Mr. Mackmiller after he designed the accounting system for the firm. (It will be necessary to describe the books of account explaining their purpose and the posting procedure. It will also be advisable to explain how the balances of each of the summary or controlling accounts may be proved.)

UNIT PROJECT

Assuming that you have been employed as accountant for The Mariemont Realty Co. to begin work on April 1, 1929, you may prepare records to conform to the system designed by Mackmiller and Singer, Certified Public Accountants, and record the following narrative of transactions for the months of April, May and June:

April 1, 1929. Open the books designed by Mackmiller and Singer, Certified Public Accountants.

(Note) This involves the following:

1st. Draft an opening entry in the general journal. This entry should be based upon the schedule of general ledger accounts which appears on page 235.

2nd. Open the general ledger accounts using the chart of accounts appearing on pages 228 and 229, and post the opening entry.

3rd. Draft post-closing entries in the general journal transferring the accruals and deferred items to the proper operating accounts.

4th. Record the real estate contracts receivable in the real estate contract register.

5th. Record the property owned in the real estate register.

Received checks as follows:

William Moran, $60.00, for April payment on real estate contract.
Carl Hunt, $50.00, for April payment on real estate contract.
John Blake, $70.00, for April payment on real estate contract.
Henry Wade, $30.00, for April payment of rent on house located at 1416 East 15th Street.

Checks were issued as follows:

Check No. 166, $40.00, to H. W. French in payment of weekly salary,
Check No. 167, $25.00, to Jenny Seay in payment of weekly salary.
Check No. 168, $75.00, to First National Company in payment of April office rent.

2. Ray L. Anderson reported the sale of one of Albert Ross' houses for $11,500.00 to R. T. Silver from whom Mr. Anderson received a check amounting to $1,500.00 as a down payment. This house was listed with The Mariemont Realty Co. on March 18.

(Note) The amount of the down payment should be recorded by debiting Cash and crediting Sales Brokerage, after which the Sales Brokerage account should be debited and distribution made as follows: Credit Mariemont

Multiple Listing Bureau with tax of 2½% of gross commission, $10.06; Credit Sales Commissions Earned for one-half the net commission of 3½% charged for sales of residential property, $196.22; Credit Ray L. Anderson, Drawing, for one-half of the net commission, $196.22, and credit Albert Ross with the proceeds amounting to $1,097.50.

Checks were issued as follows:

Check No. 169, $10.06, to the Mariemont Multiple Listing Bureau in payment of the tax on commission arising from the sale of Albert Ross' property.

Check No. 170, $1,097.50, to Albert Ross for balance due him.

3. Check No. 171 issued to the Scott Insurance Agency for premium amounting to $60.00 on fire insurance policies previously issued as follows: House located at 104 Mariemont Drive, one year policy for $5,000.00, issued April 1, premium $40.00; House located at 1416 East 15th Street, one year policy for $2,500.00, issued March 30, premium $20.00.

5. Received check for $55.00 from Mrs. Emma King in payment of April rent on house located at 104 Mariemont Drive.

Harry Wilson reports the renting of a house owned by Warren Jones to Joseph Kelly for $60.00 per month and the receipt of Mr. Kelly's check in payment of the first month's rent.

(Note) The entire amount received from Mr. Kelly should be recorded by debiting Cash and crediting Rental Brokerage, after which the Rental Brokerage account should be debited and distribution made as follows: Credit Rental Commissions Earned for one-half of the total rental commission charged, $15.00; Credit Harry Wilson, Drawing, for his share of the commission, $15.00, and credit Warren Jones for the balance due him, $30.00.

Check No. 172, $30.00, was issued to Warren Jones in payment of his share of the first month's rent received from Joseph Kelly.

8. Checks were issued as follows:

Check No. 173, $1,000.00, to the Community Building Co. in part payment of the house being built at 105 Mariemont Drive.

Check No. 174, $40.00, to H. W. French in payment of weekly salary.

Check No. 175, $25.00, to Jenny Seay in payment of weekly salary.

15. Received $40.00 from Don Adams for payment on his real estate contract due today.

Issued checks as follows:

Check No. 176, $150.00, to Community Building Co. for quarterly payment due on mortgage on property located at 101 Mariemont Drive.

Check No. 177, $150.00, to Community Building Co. for quarterly payment due on mortgage on property located at 102 Mariemont Drive.

Check No. 178, $150.00, to Community Building Co. for quarterly payment due on mortgage on property located at 103 Mariemont Drive.

Check No. 179, $150.00, to Community Building Co. for quarterly payment due on mortgage on property located at 104 Mariemont Drive.

Check No. 180, $40.00, to H. W. French in payment of weekly salary.
Check No. 181, $25.00, to Jenny Seay in payment of weekly salary.

17. Received $203.00 from Virgil Bronson in payment of his note and interest due today.

22. Issued checks as follows:

Check No. 182, $65.00, to the Mariemont Daily News in payment of advertising.

Check No. 183, $14.75, to E. H. Curry for repairs to the house located at 1416 East 15th Street.

Check No. 184, $85.00, to L. E. Douglas & Co. for soil used to improve the grounds about the house located at 104 Mariemont Drive.

Check No. 185, $30.00, to the Mariemont Water Department for water and meter connections at the house being built at 105 Mariemont Drive.

Check No. 186, $40.00, to H. W. French in payment of weekly salary.
Check No. 187, $25.00, to Jenny Seay in payment of weekly salary.

25. Erle B. Ingle reports the sale of the house at 104 Mariemont Drive for $9,500.00 to Joe Lane. Payment is to be made with Lot No. 18, Highland Park, at $1,500.00, a six percent real estate contract for $7,000.00 dated May 1, 1929, with payments of $80.00 per month starting June 1, 1929, and cash $1,200.00. The Mariemont Realty Co. assumes $200.00 special assessment taxes on the lot, due June 15, 1929, and pays the Webster Title & Abstract Co. $8.00 (Check No. 188) for bringing the title of 104 Mariemont Drive down to date.

Check No. 189, $3.20, was issued to the Webster County Recorder of Deeds for recording the deed to Lot No. 18 Highland Park.

Cancelled insurance policy on the house located at 104 Mariemont Drive which was sold to Joe Lane, and received check for $34.75 from the insurance company.

29. Checks were issued as follows:

Check No. 190, $40.00, to H. W. French in payment of weekly salary.
Check No. 191, $25.00, to Jenny Seay in payment of weekly salary.

Check No. 192, $100.00, to Ray L. Anderson to apply on commissions earned or to be earned.

Check No. 193, $100.00, to Erle B. Ingle to apply on commissions earned or to be earned.

Check No. 194, $100.00, to Harry Wilson to apply on commissions earned or to be earned.

May 1. Received checks as follows:

William Moran, $60.00, for May payment on real estate contract.
Carl Hunt, $50.00, for May payment on real estate contract.
John Blake, $70.00, for May payment on real estate contract.
Henry Wade, $30.00, for May payment of rent on house located at 1416 East 15th Street.

Issued Check No. 195 to the First National Co. for May rent of office, $75.00.

6. Issued checks as follows:

Check No. 196, $40.00, to H. W. French in payment of weekly salary.

Check No. 197, $25.00, to Jenny Seay in payment of weekly salary.

13. Issued checks as follows:

Check No. 198, $40.00, to H. W. French in payment of weekly salary.

Check No. 199, $25.00, to Jenny Seay in payment of weekly salary.

15. Received $40.00 from Don Adams for payment on his real estate contract due today.

16. Received $204.00 from Virgil Bronson in payment of his note and interest due today.

17. Check No. 200, amounting to $1,000.00, was issued to the Community Building Co. in part payment of the house being built at 105 Mariemont Drive.

20. Purchased house and lot located at 1918 Somerset Avenue from Paul Rock for $7,500.00, assuming a mortgage on the property for $5,000.00. The mortgage bears interest at 6% payable semi-annually, June 1 and December 1. It is agreed that Mr. Rock will pay the interest due on June 1. Payments to apply on the principal may be made on any interest payment date. Mr. Rock took in part payment, lot No. 107 Mariemont Drive at a valuation of $1,600.00 and was given check No. 201 for $900.00 in payment of the balance. The property purchased from Mr. Rock is rented to Anthony Roller for $75.00 per month payable in advance on the first of the month.

Issued checks as follows:

Check No. 202, $204.67, to release lot No. 107 from the mortgage held by the Peoples Savings Bank. This check is to cover the principal and accrued interest.

Check No. 203, $40.00, to H. W. French in payment of weekly salary.

Check No. 204, $25.00, to Jenny Seay in payment of weekly salary.

25. Harry Wilson sells the lot at 417 West Fourth Street to Lawrence Taylor for $1,500.00 cash. Check No. 205 was issued to the Mariemont Multiple Listing Bureau in payment of the tax on the gross commission. The Board of Directors agreed that the company should bear the tax and also agreed to allow Mr. Wilson a special commission of 5% because of his success in selling the lot for cash.

(Note) The amount of the tax paid the Mariemont Multiple Listing Bureau should be charged to Sales Commissions Earned, as this constitutes a deduction from the commissions earned during the period.

27. Issued checks as follows:

Check No. 206, $40.00, to H. W. French in payment of weekly salary.

Check No. 207, $25.00, to Jenny Seay in payment of weekly salary.

June 1. Received checks as follows:

William Moran, $60.00, for June payment on real estate contract.
Carl Hunt, $50.00, for June payment on real estate contract.
John Blake, $70.00, for June payment on real estate contract.
Joe Lane, $80.00, for June payment on real estate contract.
Henry Wade, $30.00, for June payment of rent on house located at 1416 East 15th Street.
Anthony Roller, $75.00, for June payment of rent on house located at 1918 Somerset Avenue.

Check No. 208 was issued to the First National Co. for June rent of office, $75.00.

3. Issued checks as follows:

Check No. 209, $40.00, to H. W. French in payment of weekly salary.
Check No. 210, $25.00, to Jenny Seay in payment of weekly salary.

8. Of the two houses listed by Albert Ross on March 18, one was sold on April 2, and Harry Wilson reported the sale of the other today to Cyril Conway for $8,000.00, terms $1,000.00 cash, and the balance on a six percent real estate contract payable to Albert Ross.

Issued checks as follows:

Check No. 211 to the Mariemont Multiple Listing Bureau in payment of the tax on the gross commission.
Check No. 212 to Albert Ross for balance due him.

10. Issued checks as follows:

Check No. 213, $40.00, to H. W. French in payment of weekly salary.
Check No. 214, $25.00, to Jenny Seay in payment of weekly salary.

The Community Building Co. has completed the house at 105 Mariemont Drive. Ray L. Anderson has inspected, approved and accepted it for The Mariemont Realty Company, and check No. 215 for $1,850.00 was issued to the Community Building Co. for the balance due on the house.

Issued checks as follows:

Check No. 216, $4.15, to the Webster County Recorder of Deeds for recording he title to the new house.
Check No. 217, $60.00, to R. J. Goldy & Co. for landscaping the lot about the new house.

15. Received $40.00 from Don Adams for June payment on his real estate contract due today.

Check No. 218, $200.00, was issued to the Webster County Treasurer in payment of the assumed taxes on Lot 18 Highland Park.

Check No. 219 for $75.00, was issued to the Scott Insurance Agency in payment of premium on insurance policies as follows: House located at 105 Mariemont Drive, one year policy for $4,500.00 issued June 10, 1929, premium $32.50; House located at 1918 Somerset Ave., one year policy for $6,000.00, issued May 20, 1929, premium $42.50.

16. Received $205.00 from Virgil Bronson in payment of his note and interest due today.

17. Issued checks as follows:

Check No. 220, $40.00, to H. W. French in payment of weekly salary.

Check No. 221, $25.00, to Jenny Seay in payment of weekly salary.

20. The new house at 105 Mariemont Drive was rented today by Ray L. Anderson for $75.00 per month to Robert East who paid Mr. Anderson the first month's rent.

24. Issued checks as follows:

Check No. 222, $40.00, to H. W. French in payment of weekly salary.

Check No. 223, $25.00, to Jenny Seay in payment of weekly salary.

30. As this is the end of the quarter and statements are to be prepared, the following checks are issued in full payment of the salaries and commissions due up to date:

Check No. 224, $40.00, to H. W. French
Check No. 225, $25.00, to Jenny Seay
Check No. 226, $121.19, to Ray L. Anderson
Check No. 227, $321.98, to Erle B. Ingle
Check No. 228, $160.88, to Harry Wilson.

After recording all of the preceding transactions, you may proceed as follows:

1. Take a Trial Balance
2. Journalize the adjusting entries required for the following:

Accruals:

Interest accrued on real estate contracts receivable:

William Moran Real Estate Contract	$28.31
Carl Hunt Real Estate Contract	18.78
John Blake Real Estate Contract	34.47
Joe Lane Real Estate Contract	34.78
Don Adams Real Estate Contract	2.15

Interest accrued on mortgages payable:

Lots 105–120 Mariemont Drive (6 mos.)	$72.00
101 Mariemont Drive (2½ mos.)	57.67
102 Mariemont Drive (2½ mos.)	58.66
103 Mariemont Drive (2½ mos.)	59.65
104 Mariemont Drive (2½ mos.)	60.61
1918 Somerset Ave. (1 mo.)	25.00

Deferred Items:

Real Estate Board Membership Fee (one-half)	$42.50
Multiple Listing Bureau Membership Fee (one-half)	50.00
Organization Expenses (one-half)	15.00

Insurance:

105 Mariemont Drive	$31.60
1416 E. 15th St.	15.00
1918 Somerset Ave.	37.78

Depreciation:

Office Equipment	20% per year
House, 105 Mariemont Drive	2% per year
House, 1416 E. 15th St.	2% per year
House, 1918 Somerset Ave.	2% per year

(Note) The house located at 1918 Somerset Ave. was valued at $6,000.00 and the lot at $1,500.00.

3. Prepare a Working Sheet which will provide the information needed in preparing a Balance Sheet, Profit and Loss Statement and closing entries.

4. Prepare a Balance Sheet

5. Prepare a Profit and Loss Statement

6. Prepare a schedule of the real estate contracts receivable, showing the balance due on the principal of each contract. (Prove the sum of the contracts receivable by checking with the amount of the Real Estate Contracts Receivable as shown on the Balance Sheet.)

7. Prepare a schedule of the real estate holdings, showing the present value of each property. (Prove the sum of the real estate holdings by checking with the amount of the Real Estate Holdings as shown on the Balance Sheet.)

8. Draft closing entries in journal form and post to the ledger accounts

9. Prepare the necessary post-closing entries

10. Take a Post-Closing Trial Balance to prove that the general ledger is in balance after posting the closing and post-closing entries.

REVIEW QUESTIONS AND PROBLEMS

Based on the Records and Reports of The Mariemont Realty Company

10—96. Design a mortgage payable register to be used as an auxiliary record, and state the advantages which may be derived from its use.

10—97. (a) How do the earnings of the company for the quarter ending March 31 compare with the earnings for the quarter ending June 30?

(b) What was the ratio of the current assets to the current liabilities on March 31? June 30?

10—98. What is the function of the Sales Brokerage and Rental Brokerage accounts?

(b) What does the sum of the items credited to these accounts represent?

(c) What does the sum of the items debited to these accounts represent?

10—99. Prepare a list of the mortgages payable showing the amount of each mortgage, the total amount of the mortgages outstanding and the amount of the interest accrued on June 30.

10—100. Prepare a record of the payments received to apply on each of the real estate contracts receivable from the date of the contract to June 30, 1929. (This record should be arranged similar to the schedule appearing at the bottom of page 224.)

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